



**Understanding the causes, dynamics, and
consequences of corporatization:
An analysis of local government evidence in
England and Germany**

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Summary

This dissertation explores corporatization—the provision of public services by publicly-owned companies—as a specific public management reform that has strongly been endorsed in the last decades. However, despite the significance of corporatization in public administration and the controversy over its viability as a strategy for enhancing public service provision, there is limited empirical research on its trajectory and associated effects. This dissertation fills this important gap in the literature by examining the causes, dynamics, and consequences of corporatization. It challenges the claim that we are witnessing a resurgence of the state in recent years, resulting in a pendulum shift from the private to the public sector. A mixed-methods approach is employed to analyze three original datasets from English and German local government contexts. Theoretical perspectives rooted in rational choice are complemented by those accounting for irrational ambiguity to capture the unique ambidexterity of corporatization. After clarifying the theoretical background in Chapter 1, this exploration unfolds across three empirical chapters. Chapter 2 investigates what drives corporatization. It reveals that ownership structures in corporatization have become increasingly complex and political—rather than economic—incentives may explain shifts toward indirect municipal ownership. Chapter 3 examines what causes corporatization to reverse. It shows that a return of services to the core local government after a company closes is less likely than other forms of service provision, while the type of service is the factor that matters most for termination decisions. Chapter 4 analyzes how local governments experience and cope with reverse corporatization. Local governments and their employees evidently and mutually impact the return process, which can induce private sector-informed change within the bureaucracy, albeit with limited transformative power. Ultimately, this dissertation finds no clear evidence of a pendulum shift toward the local public sector. This conclusion follows from conceptual and empirical differentiation and depends on how corporatization is framed, as well as on the specific country, service type, and dimen-

sion of public influence considered. It also suggests that the notion of the pendulum shift needs reevaluation. For practitioners, this holds several implications that encourage optimism about reform, and advise against an arbitrary approach to diversifying costs.

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List of abbreviations

APSE	Association for Public Service Excellence
CART	Classification And Regression Trees
CLG	Companies Limited by Guarantee
CLS	Companies Limited by Shares
D.K.	Driscoll and Kraay
EU	European Union
GmbH	Gesellschaft mit beschränkter Haftung
GovTech	Government Technology start-up
KPI	Key Performance Indicators
LGC	Local Government Company
LLP	Limited Liability Partnerships
Ltd	Limited liability company
ML	Machine Learning
MDSD	Most Different System Design
NPM	New Public Management
NRW	North Rhine-Westphalia
OECD	Organisation for Economic Co-operation and Development
PPP	Public-Private Partnership
RF	Random Forest
RQ	Research Question
TCF	Transaction Cost Framework
VIF	Variance Inflation Factor

1. Introduction

Private sector involvement in the delivery of public services has long been a viable way to address socioeconomic needs. It has occurred in various forms in areas ranging from infrastructure planning and social services to back office functions. Yet, it has been the subject of tense debate across European Union (EU) member states and beyond. Opinions strongly differ over how much economic activity governments may engage in while supporting the public interest, especially in terms of critical infrastructures¹ (Haque, 2001; Voorn et al., 2017). Proponents of private sector involvement emphasize the multiple economic benefits provided by the organizational bundling of services, financial resources, and the unique latitudes of private law, especially when compared to conventional approaches to project implementations (Andrews et al., 2015; Hodge et al., 2010; Reynaers, 2014). In contrast, accusations have been directed against the alleged proliferation of ‘neoliberal’ ideas, such as profit maximization over the social good, leading to a decline in public value in both administrative process and outcome (Becker et al., 2015; Bertelli, 2019; Bloomfield, 2006; C. Chen et al., 2013; Hodge and Greve, 2005; Leclercq et al., 2020) and ultimately violating cardinal administrative doctrines that are designed to ensure democratic-bureaucratic accountability (Osborne, 2010).

While the influence of the state began to steadily increase in the middle of the 19th century, currents critical of the state caused a trend reversal starting in Anglo-Saxon countries in the 1980s. Later, in the 1990s, it also reversed in Continental European countries with the rise of comprehensive liberalization and privatization measures, not least due to the creation of the EU’s single market (John, 2000; Kuhlmann, 2008; Stewart, 2010). Through various policies and initiatives, the EU worked to create a competitive and efficient single market within its member states while ensuring that its services remained accessible, affordable, and high quality (Clifton et al., 2006; Mörth, 2009). This encouraged governments to take advantage of European opportunity structures for

funding and networking. At the same time, European legislation affected their policy portfolio and required them to adapt to EU law in several areas of activity. As the single market was created to remove barriers to trade and investment between EU member states, it also increased competition and put pressure on governments to become more efficient and market-oriented. In response, many governments have adapted internal and partnership practices and induced business methods to improve the quality of services, reduce costs, and increase revenues through commercial activities, although the scopes and results vary widely (Guderjan and Verhelst, 2021; Howarth and Sadeh, 2010).

Recently, there has been discussion of a public sector renaissance, “bringing the state back in” (Læg Reid and Verhoest, 2010, p. 3). Notably, such discussion has emerged after disappointing experiences with privatization (Albalade et al., 2021), issued by an increasing disconnect between policy design, implementation, and evaluation, resulting in a loss of coordination and democratic control (T. Christensen and Læg Reid, 2011b; Moldenæs and Torsteinsen, 2017; Verhoest, 2013). Since then, several guidelines and standards have been established at the EU level and within each state, some of which substantially reformed public sector accounting and auditing (e.g., the International Financial Reporting Standards). These guidelines and standards sought to mitigate governance challenges and counteract negative tendencies related to transparent and accountable public service provision (Brusca et al., 2015; Ongaro and van Thiel, 2018; Papenfuß and Schmidt, 2021). While effects on service delivery dynamics are not yet permeated, initial statistics suggest that during the 2000s, the so-called ‘pendulum’ swinging between the market (decentralization, deregulation, and delegation) and the state (centralization, coordination, and control) (Aucoin, 1990) became more balanced, rather than leaning toward one of the two extremes (Warner and Aldag, 2021).

Government-owned companies are one notable institutionalized manifestation within this roughly sketched setting. These have long served as an essential ‘cog in the wheel’ (Peters et al., 2014), however, they became increasingly prominent with EU market integration (Clifton et al., 2006; van Thiel, 2012). The term ‘corporatization’ is frequently used to define this particular mode of service delivery. Specifically, corporatization refers to the creation of separate legal entities organized under private law to deliver specific mandated services, such as infrastructure, housing, or economic development

on behalf of the government and its public mission (Andrews, 2022; Grossi and Reichard, 2008; Lindlbauer et al., 2016). Unlike fully privatized tasks, these companies may be wholly owned by the government or formed in partnership with private-sector enterprises. Notably, the OECD (2021) advises that the government's involvement in such companies is supposed to focus on maximizing value for society by efficiently allocating resources. Put differently, in government-owned companies "the invisible hand of the market joins up with the visible hand of the state" (Gott, 2011, p. 175).

While some see corporatization as a step toward full privatization, which would undermine the state, others see it as a promising escape from the 'corset' of the public sector that maintains critical, democratically legitimized checks and balances through politically staffed bodies (e.g., a board of directors, a supervisory board) (Grossi and Reichard, 2008; Voorn, 2022). Although government-owned companies operate more closely with central administrations than fully privatized entities, they nevertheless exhibit a degree of detachment from the public sector and an embrace of private sector logic, for example, they demonstrate more managerial autonomy and less public oversight (Andrews, 2022). Accordingly, corporatization is often portrayed as a middle-ground public management reform strategy (Voorn and van Genugten, 2021).

In light of the ambivalent role of companies in public service provision, scholars have considered their structures, functions, and legitimacy (Daiser et al., 2017; Verhoest, 2013). However, such research has focused on the state level, leaving the local level underrepresented. This is surprising: Although issues of major socioeconomic significance are often discussed and decided at the national level, the global importance of local governments as crucial levers for action is widely recognized. As political philosopher and pedagogist John Dewey (2016, p. 230) observed in 1927, "the local is the only universal, and as near an absolute as exists"; here, Dewey underscores the relevance of the most direct and intimate interactions for democracy. Later, Denver's former mayor reiterated this idea in his famous quote: "The 19th century was a century of empires, the 20th century was a century of nation-states. The 21st century will be a century of cities" (Webb, 2000). In a similar vein, the United Nations (United Nations, 2015; United Nations, 2017; United Nations, 2020) continues to highlight that cities are where the battle for sustainable development will be won or lost.

Localities, as centers of economic, cultural, and social activity, are at the forefront of practically addressing complex societal issues (Barber, 2013; Landry, 2012). Localities are venues where tensions become not merely latent but salient (i.e., visible and palpable), policies are implemented, methods are tested, and citizens' concerns are eventually resolved. In fact, local government companies have particularly strong ties to their surroundings, and their performance directly impacts their immediate environment (Karppi and Vakkuri, 2020). This can facilitate the engagement of local stakeholders, who benefit directly from the outcomes of practical reforms and are more likely to have a similar frame of reference, making them more sensitive to institutional decisions (Neumann et al., 2019). Extant literature summarizes this phenomenon as the 'proximity principle' (Reese, 2018). Depending on the degree of autonomy granted to local authorities in a country, municipalities may be less bound by the directives of the central government. However, they may also be more dependent on local (political) particularism, which, in addition to the EU's adaptation pressures, frequently dictates the future of their businesses.

It is indeed the case that Europeanization has also had a significant impact at the local level in member states, both directly (through European policies) and indirectly (through European opportunity structures and standards). Similar to that at the national level, this impact is reflected in programming, partnerships, and rigorous accounting procedures (Brusca et al., 2015). However, despite the role of local authorities in the EU's multi-level democratic system, including their increased lobbying power at the European level², they have comparatively little influence on how European integration takes shape (Guderjan and Verhelst, 2021; John, 2000). This power imbalance led former Commission President Jean-Claude Juncker to advocate for a 'Europe of four levels', both empowering and demanding local levels vis-à-vis the regional, national and European stages: "I want our Union to focus more on the things that matter to our citizens. (...) Our Union cannot be built without the active and equal participation of local authorities, EU institutions and all levels of government in between. (...)" (Juncker, July 2018; see European Commission, 2018). These factors place local government companies in a tense situation of unique opportunities and constraints. At the same time, they must be responsive to specific local needs or challenges in their dense, multi-scalar,

and ever-changing environments. Consequently, local government companies have their own important dynamics and should be treated as a distinct and critical field of research to explore.

While scholars have increasingly considered local government corporatization, relatively little empirical work has been done on its trajectory and associated effects. Some evidence points to what drives it, which this dissertation calls the ‘outward’ dynamics of service delivery. Limited evidence points to what causes it to reverse—that is, the closure of public companies—(Andrews et al., 2022; Voorn et al., 2021), and even less to the actual consequences of reversed corporatization when former company components (e.g., tasks or personnel) are reinternalized into the core administration, which this dissertation calls the ‘inward’ dynamics of service delivery.

Thus, while there is ample scope to better ground theoretical claims about the antecedents of local government corporatization, a stronger understanding of the inward dynamics remains important. Notably, consistent with the postulated pendulum dynamics toward the state, the literature suggests that the remunicipalization of previously privatized tasks (Albalade et al., 2022; Albalade et al., 2021) has been on the rise. While ‘remunicipalization’ commonly refers to the transfer to public ownership at the local level, there is little evidence on whether this entails fully reinternalizing services into the core administration or instead transferring them to public companies, thereby advancing corporatization (Voorn et al., 2021; Wollmann, 2016b). In a similar vein, reverse corporatization is often seen as one element of this trend, confirming the view of critics of the unsuitability of private law for public tasks (Camões and Rodrigues, 2021; Gradus and Budding, 2020). However, there is scant knowledge about the reasons for the termination of companies and what follows as a functional line—be it further distance from the market, such as a complete reinternalization into the core administration, or a merger with another company.

This dissertation responds to this lacuna in the research by examining corporatization along its life cycle and tracing its causes, dynamics, and consequences in one study. Specifically, this study employs a mixed-method approach using three original datasets from English³ and German local government contexts, which also addresses the need for systematic cross-national insights (Andrews, 2022; Torfing, 2019).

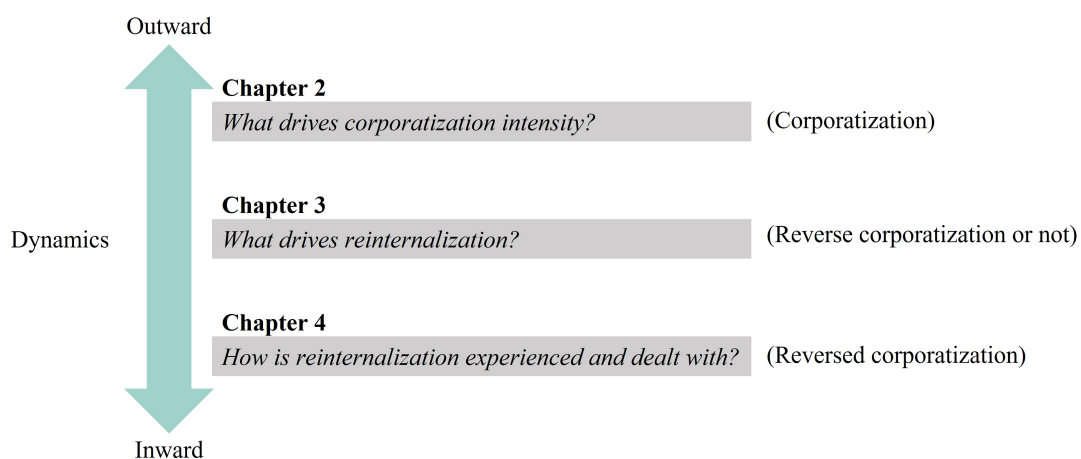


Figure 1.1.: This dissertation’s three analytical steps, which are based in the outward and inward dynamics of local public service delivery.

While this dissertation, therefore, focuses on the specific public management reform strategy of corporatization, its work is embedded in the broader theme of the pendulum swing between the free market and state intervention (Stewart, 2010; Wollmann and Marcou, 2010), which is mirrored in the shifting nexus of the public and private at the local level. In light of these considerations, the overarching research question of this dissertation is as follows: Are we actually witnessing a resurgence of the state that is causing the pendulum to swing in favor of the local public sector?

The overarching question is taken up in three analytical steps, culminating in three empirical chapters with individual research questions. This structure is roughly outlined in Figure 1.1 and further detailed in the remainder of this introductory chapter. Together, these empirical chapters deepen existing understandings of the outward and inward dynamics of service provision in the context of intensified corporatization (Chapter 2), its decline (Chapter 3), and its (implemented) reversal (Chapter 4).

Section 1.1 introduces the key concepts, existing studies, and critical gaps in the literature that serve as the theoretical foundation for the dissertation. This is followed by an outline of Chapters 2 to 4, including how their designs and methodologies contribute to filling these gaps.

1.1. Theoretical background and key concepts

The theoretical concept of *publicness*, which, as will be argued, has been well manifested in the practical phenomenon of corporatization, best captures the central theme of this dissertation. It is, therefore, used to provide the overarching research framework. In addition to this broader embedment, corporatization as a reform option for public administration is examined from a number of theoretical viewpoints, combining those rooted in rational choice with those that account for irrational ambiguity. As each perspective has its strengths and weaknesses, their complement is expected to better capture the ambidexterity inherent in corporatization; namely the extended transaction cost framework (Chapter 2), the organizational tension lens (Chapter 3), and paradox theory (Chapter 4). Examining multiple perspectives backed up by diverse empirical data is essential to conducting informed and inclusive research (Davis and Gilson, 2017; Mayer and Sparrowe, 2013); ultimately, this approach lends itself to a more mature understanding of corporatization and, by extension, the changing nature of the public-private nexus by shedding light on how organizations position themselves within these seemingly opposing forces. Before delving into this, Section 1.1.1 explores and clarifies the concept, practice, and scholarly reappraisal of corporatization.

1.1.1. Corporatization

Corporatization is widely viewed as the institutional transfer of functions from core government units to companies that are partially or wholly owned by governments (Andrews, 2022; Grossi and Reichard, 2008). While some interpretations of this process include the transfer to partially independent public law entities or agencies (e.g., Andrews, 2023; Berge and Torsteinsen, 2022; Bilodeau et al., 2007), this dissertation focuses exclusively on private law public companies (see Figure 1.2, ‘private-law public company’) and their (implemented) reversal. This focus was chosen to make potentially directional elements of the private sector appropriately accessible for meaningful analysis while taking a position in which they are neither fully internalized nor externalized.

Private-law public companies are distinct from ‘out-house externalized’ services, which comprise all contracted out or divested public functions operated by private

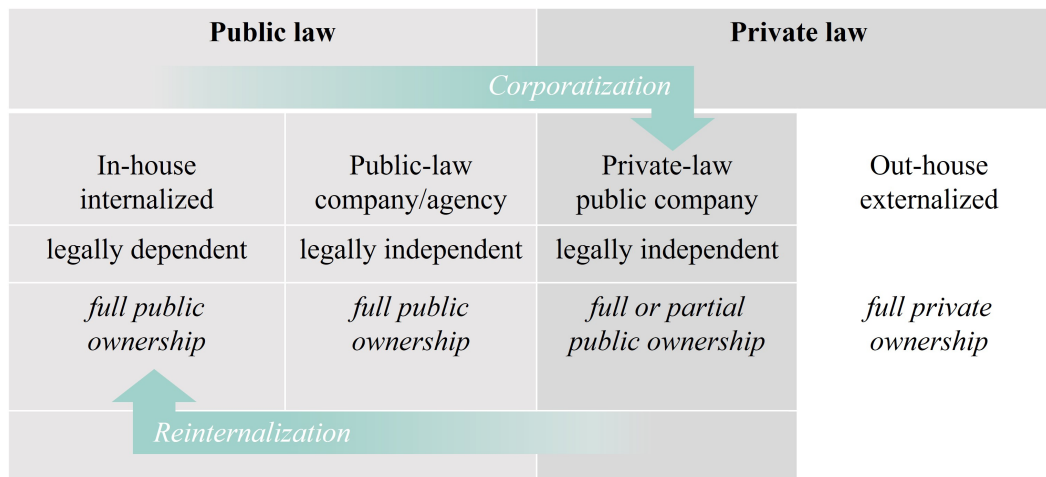


Figure 1.2.: Overview of the corporatization concept, process, and legal forms as used in this dissertation.

providers, including fully privatized ones. In a fully privatized case, the service is provided by the market; that is, the respective task is fully transferred to private companies, which eliminates municipal warranty liability (Wollmann and Marcou, 2010). Meanwhile, when a service is contracted out, it is contracted to a private operator for a certain period, while political control remains with the municipality. Although these two modes differ in some respects, they both represent a form of privatized public services with its own external dynamics and that transfers risk to the private sector⁴ (Friedländer et al., 2021; Hodge et al., 2010). For analytical purposes, this dissertation captures both these modes with the concept of ‘externalized’ service provision, which primarily serves to delineate the research object: corporatization manifested in private-law public companies.

The reversal of private-law public companies to in-house provision through core government bodies without own statutory rights is labeled ‘reinternalization’. This term was inspired by Lamothe et al. (2008), who place modes of public service delivery on a continuum from externalization to complete internalization. Reinternalization contrasts with ‘remunicipalization’, a term frequently used to capture a general shift from previously privatized functions to the public realm (Clifton et al., 2021; Gradus and Budding, 2020; Voorn et al., 2021).

Corporatized entities at the local government level are often referred to inconsistently in the literature. Some authors label them as municipally owned companies/corporations

(Daiser and Wirtz, 2021; Krause and van Thiel, 2019; Voorn et al., 2017), while others label them as municipal corporations (Andrews et al., 2022; Citroni et al., 2015; Tavares, 2017), or local government/authority enterprises/companies (Aars and Ringkjøb, 2011; Andrews et al., 2020; Ferry et al., 2018; Voorn et al., 2018).

This dissertation uses the term ‘local government company’ (LGC) (with isolated deviations in Chapters 2 to 4 according to journal requirements) to refer to ‘private-law public companies’, that is, all entities in the samples that can be attributed to both single-tier (London boroughs, metropolitan districts, and unitary authorities) or upper-tier (county councils) authorities in England and two-tier (municipalities and county-free cities) local authorities in Germany (Andrews et al., 2020; Kuhlmann and Wollmann, 2019). These entities depict an outward dynamic from core administration to corporatized units that subsequently provide local public services under private law in areas such as energy, water, social services, health, and cultural services (Grossi and Reichard, 2008). These units operate in various combinations of full or partial public ownership with one or more local governments and one or more private partners.

The exact ownership structure of a company can have serious implications for its governance. However, guiding factors that determine a company’s performance and future success go beyond formal ownership (Papenfuß and Schmidt, 2021), as Section 1.1.2 demonstrates. The governance structure of corporatized entities’ principles is multi-layered and includes representations of the company and the local authority, as well as the private partner in the case of mixed ownership. LGCs typically have their own budgets and workforces that are largely independent of the civil service system, allowing them, for example, to set wages, raise additional revenue, or avail loans (Tavares, 2017; Voorn et al., 2017). In some cases, this includes the right to make profits while risking bankruptcy (Bel and Fageda, 2010). Local governments can only indirectly influence companies through incorporation, assemblies, and boards of directors; meanwhile, their formal influence depends on the size of their shares (Aars and Ringkjøb, 2011)—although their actual influence does not always depend on shares, as explained in Section 1.1.2.

Thus, transferring public services to the jurisdiction of private law allows for greater flexibility outside the public sector’s bureaucratic corset, one of the key rationales driving this type of reform. The associated autonomy involving ‘arm’s length’ steering

is primarily intended to improve organizational performance (Voorn et al., 2017) and reduce the politicization of public services by replacing it with professionalism (Bourdoux, 2008). Some studies emphasize the closely related motive of shifting blame to managers in unfavorable situations (Voorn, 2022) and of transferring municipal debt to so-called ‘shadow budgets’ to (cosmetically) relieve the core budget (Haug, 2009). These motivations can be classified as either “progressive corporatization” in which the main objective is to make the entity administratively and financially autonomous, or “neoliberal corporatization,” in which the primary aim is to promote private logic in the production and provision of public services (McDonald, 2014). According to Valkama (2013, p. 73), this transformative momentum makes corporatization an organizational innovation, “lowering or transcending classic boundaries between (...) sectors.”

Today, corporatization is a global phenomenon with documented antecedents stretching back to ancient times (Patterson, 1983). Although public companies have long been established to produce public goods or services, they have only recently become a more common route. Their proliferation can be roughly divided into two waves. The first wave began in the postwar period at the turn of the 20th century, when governments took over economic sectors by establishing companies as part of reconstruction and development. Thus, essential public services, especially in manufacturing and network utilities, were corporatized to varying degrees in different countries (Millward, 2011). Subsequently, public companies grew in popularity. As noted at the beginning of this chapter, this first occurred in Anglo-Saxon countries in the 1980s, owing mostly to the liberalization programs of the Reagan and Thatcher governments, and then in continental European countries in the 1990s, following suit. As also suggested above, this second wave coincided with a shift in national guiding principles influenced by the growing popularity of ‘neoliberal’ thought (Clifton et al., 2006; C. Cooper et al., 2021; Schröter, 2019). As a British cabinet minister expressed at that time: “Efficient management is the key to the [national] revival (...) and the management ethos must run right through our national life—private and public companies, civil service, nationalized industries, local government, the National Health Service” (speech in 1980 by Michael Heseltine, cited in C. Pollitt, 2003, p. 169).

What is commonly referred to as the New Public Management (NPM) reform resulted in a redrawing of the public sector's boundaries, as well as major modifications in its institutional structures (Bilodeau et al., 2007; Grossi and Reichard, 2008; Hamerschmid et al., 2016). While NPM was implemented to varying degrees across countries, it generally meant that business concepts, techniques, and values—such as the efficiency imperative, performance indicators, and customer orientation, or as (Dunleavy et al., 2006, p. 470) put it, “disaggregation, competition, and incentivization,”—were imported to improve bureaucracies that were considered to be excessively rigid, backward, and, above all, inefficient. Over time, these arguments grew in importance, especially during the austerity measures implemented in the aftermath of the 2007/08 global financial crisis (J. G. Christensen and Pallesen, 2001; Guderjan and Verhelst, 2021; Ferry et al., 2018).

During this process, the state has evolved, to some extent, from a monopolist providing public services to a guarantor, enabler, coordinator, and facilitator of a complex institutional framework of public service providers (Friedländer et al., 2021). More diverse patterns of service delivery by a “pluralist state” (Osborne, 2010, p. 191) have emerged, including unique organizational forms governed by public, private, and civic collaborations (Mahoney et al., 2009). This transformation has occurred at all levels of government, with local government companies serving as a prominent embodiment.

Recent studies posit a paradigm shift toward a ‘post-NPM’era (T. Christensen and Lægreid, 2011a; Denis et al., 2015; Eriksson et al., 2020), which may be reflected in various aspects of administrative management or corporate practice. This, however, appears to have had little effect on the overall scope of corporatization. Although some studies report signs of “disenchantment” (Camões and Rodrigues, 2021, p. 1) which are resulting in company closures, the majority attests to corporatization as a pertinent trend (Andrews, 2022; Ferry et al., 2018). However, this argument is based on rare longitudinal evidence from Belgium (Vos and Voets, 2022; Vos and Voets, 2023), England (Andrews, 2022), the Netherlands (Gradus et al., 2014), and Norway (Aars and Ringkjøb, 2011). Therefore, whether corporatization is a stable interim solution or a thoroughly sustainable permanent one remains unclear.

To counteract negative tendencies, as well as to prevent opacity and decoupling from public control (Grossi and Thomasson, 2015), local authorities have begun to establish accounting standards, such as consolidated budgets, or other self-regulatory measures, such as corporate governance codes, to promote sound governance in organizations. Initial evidence confirms that corporate governance codes are having their intended effect (Papenfuß and Schmidt, 2021).

Accordingly, the dynamics of corporatization reflect a push and pull between the appropriate degree of *laissez-faire* and accountability and legitimacy. Local governments that choose to corporatize are in a delicate position because companies can pursue their own deviant objectives, especially given mixed ownership (Da Cruz and Marques, 2012; Peters et al., 2014). Such tensions can lead to structural and cultural disintegration (Berge and Torsteinsen, 2022). Nonetheless, the local government remains generally responsible for the organization, and thus for ensuring the prompt delivery of services to citizens (Grossi and Reichard, 2008).

Indeed, the extent to which local government corporatization achieves its performance goals remains unclear. Two recent studies have shown that municipal utilities in Germany (Stiel, 2022) and mixed-economy enterprises in Spain (Bel et al., 2022) perform no better or worse than other forms of organization in terms of economic productivity. In their systematic review, Voorn et al. (2017) find that LGCs can be more efficient in certain service areas, such as waste collection. Furthermore, it is unclear to what extent such companies prioritize private-law characteristics over the public interest and whether they are subject to weakened or reinforced political control (Citroni et al., 2015), including through “bureau-shaping” (Schröter et al., 2019, p. 208). According to Voorn (2022, p. 208), public value can be preserved in LGCs because their semi-autonomous status protects service delivery from “political rent-seeking.”

Such intended or unintended consequences, such as expiring subsidies, malfunctions, and control and legitimacy concerns, may lead to reverse corporatization or the decision to no longer retain and terminate a company (Andrews, 2022; Camões and Rodrigues, 2021). As noted above, empirical evidence in this area remains scarce, and even less is known about what happens to the form and function of the company after its termination (Gradus and Budding, 2020). In such situations, local governments typically have a

portfolio of delivery alternatives at their disposal and must decide which is the most favorable given their context and objectives. These alternatives typically range from transitioning to privatization, merging with another private-law entity, switching to a public-law company/agency, or reinternalizing services into the core administration—the most internalized delivery (as also depicted in Figure 1.2) and the least-researched local government reform.

It is noteworthy that, despite its timeliness and increasing practical importance, local government corporatization has only recently begun to receive significant attention as a distinct research topic in academia (with somewhat more lead time in the U.S. research landscape, consistent with the historical events described above) (Tremml, 2021). This is especially true when compared to other institutionalized forms of public service delivery outside of core local government, as shown in Figure 1.2. Most existing research has focused on full privatization or contracting out (e.g., Bel and Fageda, 2007; Bhatti et al., 2009; Hefetz and Warner, 2012; Warner, 2012; Zullo, 2009). Another prominent stream engaged with transfers to public-law companies or agencies (see in particular the extensive findings of the research network COBRA, COBRA, 2007; Verhoest, 2013). These studies understand corporatization as one sub-type of so-called ‘agencification’. Meanwhile, others, such as C. Cooper et al. (2021) understand it as distinct in the sense used in this dissertation. In general, however, this stream primarily focuses on public law agencies at the national level.

In addition to the growing number of studies on the corporatization of local governments, this emerging interest is also evident in a recent symposium devoted exclusively to this topic (Andrews, 2022). The shift in discourse and the public sector’s inclination to steer clear of rampant privatization (Voorn and van Genugten, 2021; Warner, 2008) may be one reason for this academic reorientation, as it normatively points to appropriate research behavior and, practically, narrows the empirical field of privatization.

While this branch of research is still nascent (Voorn et al., 2018), empirical studies have begun investigating the determinants of local government corporatization (Andrews et al., 2020; Bel and Fageda, 2010; Lindlbauer et al., 2016; Rodrigues et al., 2012; Tavares and Camões, 2010; Vos and Voets, 2022), as well as the governance and performance (Bel et al., 2022; Bilodeau et al., 2007; Daiser et al., 2017; Papenfuß

and Schmidt, 2021; Papenfuß and Schmidt, 2022; Stiel, 2022; Voorn and van Genugten, 2021; Voorn, 2022; Voorn et al., 2022); accordingly, they are more focused on the initiation and sustenance of corporatization rather than its decline (Andrews, 2022). Notably, Voorn (2021) identified differences in research priorities between the EU (empirical and pragmatic approach) and the USA (more principled approach) within this stream.

Indeed, empirical local government corporatization research has consistently focused on Western cultures, especially individual countries, such as the Netherlands (e.g., Voorn and van Genugten, 2021; Voorn et al., 2022), Portugal (e.g., Tavares and Camões, 2007; Tavares and Camões, 2010), the United Kingdom (e.g., Andrews et al., 2020; Ferry et al., 2018), or Spain (e.g., Alonso et al., 2022; Bel et al., 2022) leaving other continents, countries or systematic cross-border findings underrepresented. This could indicate different regional research interests and capacities, or restrictive journal policies with clear Western foci and less a lack of the presence of LGC on the global stage (McDonald, 2014).

In a similar vein, the majority of methods used so far are variants of regression analysis (e.g., Andrews et al., 2020; Bel et al., 2022; Tavares and Camões, 2007) or surveys (e.g., Bel and Fageda, 2010; Voorn et al., 2022; Voorn, 2022). Hardly any study has opened up new computational methodological arenas, including machine learning, even though it offers unprecedented potential for understanding complex local decision-making processes (Anastasopoulos and Whitford, 2019).

Scholars have used a broader range of theoretical frameworks. However, most are related to approaches of instrumental rationality—especially principal-agent theory—(e.g., Da Cruz and Marques, 2012; Lindlbauer et al., 2016; Voorn and van Genugten, 2021) and take less account of the not-so rational contradictory nature of organizations, as further elaborated in Sections 1.1.2 to 1.1.4.

1.1.2. Publicness: Beyond formal ownership

Companies have long been viewed as either government-owned or privately-owned. However, today a more nuanced view prevails that understands government-owned companies as *hybrid* organizations, with their level of ownership and government control variegating (e.g., Bruton et al., 2015). In fact, the enigma of how public and private

organizations differ (Bozeman, 1987) and whether an organization's public context influences its behavior (Rainey et al., 1976), commonly known as the 'publicness puzzle' (Bozeman and Bretschneider, 1994), has long been a central theme in public administration and organizational research. Different perspectives on the role of the market and the state in providing services to citizens have led to ongoing debates about the various elements of publicness. Three dimensions of publicness have been investigated and widely applied: ownership publicness (public, private, or nonprofit), control publicness (by political or market forces), and funding publicness (government grants/taxpayers or consumer payments) (Andrews et al., 2011; Andrews, 2022; Bozeman and Bretschneider, 1994; Y. Chen et al., 2021; Keppeler and Papenfuß, 2021). This section discusses and clarifies the importance of these dimensions. Understanding the nuances of publicness helps to clarify the unique condition of LGCs.

Traditionally, discussions of publicness have primarily focused on ownership publicness. Given that this form of publicness is based on the legal status of organizations and their stakes, what Bozeman and Bretschneider (1994) refer to as 'the core model' of publicness allows a clear line to be drawn between an organization's public and private realms. Related to this is the formal influence of public authorities on assets and value sets. In this context, public ownership is typically associated with specific doctrines, such as efficacy and equity, which include distinct processes for accountability, personnel, and resources. This highlights significant sectoral differences.

The public mission is articulated in stark contrast to the private mission, which is determined by the "monetized financial value, interests, or profits of a firm" rather than the collective mission (Cui et al., 2011, p. 4). Increasing levels of private ownership may challenge or even diminish publicness as socioeconomic roles shrink, the composition of service recipients diminishes, accountability conditions deteriorate, and public trust erodes (Haque, 2001).

Bozeman and Bretschneider (1994, p. 8) reevaluate these accounts of previous research and question the validity of the core model. Specifically, they posit that publicness cannot be determined by a single dimension; instead, they argue, that it is shaped by "the degree of political authority constraints and endowments affecting the institution" rather than just "the legal status of institutions or their ownership (i.e., government

or business).” This echoes the idea that formal agreements remain ineffective unless implemented (Haque, 2001).

Based on these considerations, ‘funding publicness’ relates to the degree of public funding, in contrast to the sale of products on markets and market financing (Bozeman and Bretschneider, 1994). While this aspect is more intuitive, ‘control publicness’ requires some explanation.

Control publicness involves the extent to which elected officials or their representatives, as opposed to market forces, use public authority to constrain an organization by shaping policies and practices through the application of specific rules or normative demands (Hood et al., 2000; Petrovsky et al., 2015; C. Pollitt, 1984). This can work in favor of or against the local authority’s objective orientation; after all, the public owner is a distinct entity with frequently conflicting interests, which might result in precarious compromises or the public owner not possessing a powerful enough voice to enforce their objective direction. Conversely, the private owner’s influence may be stronger than their calculated share weighting or, in the case of sole public ownership, the executive, as the private firm characteristic of clearly formulated performance targets often supersedes the more diffuse public owner’s goals, which is also reflected in target achievement monitoring (Da Cruz and Marques, 2012). Thus, while ownership publicness is clearly definable, control publicness distinguishes organizations based on their economic and political authority. Therefore, it can take many forms within a company and is more challenging to measure for analytical purposes. The same is true for funding publicness. While it may seem easier to measure cash flows, public funds can flow in a variety of ways, such as through grants, tax incentives, or public tenders. It is important to note, that this information is rarely declared in annual accounts (Andrews, 2022); this makes it difficult to quantify the exact amount of public funding, to assess its relevance for the organization, or to determine how the normative frameworks inherent to the funding affect (the organization’s) progress (Fleming et al., 2021).

While an empirical challenge, analytically, control and funding publicness thus add dimensions to the model, forming ‘the dimensional model’ (Bozeman and Bretschneider, 1994). This premise situates organizations as more nuanced and more or less public or private (Albalade et al., 2014; Rainey, 2012; Yeo et al., 2018). It also advocates for

a partial merger–private and public interests cannot be fully understood if they are conceived separately (Mahoney et al., 2009).

Although widely applied in empirical research, studies have rarely linked publicness to LGCs, despite widespread agreement that these ambivalent private law contexts have the potential for sectoral boundary erosion (Albalade et al., 2014), which can persist even after their closure due to function and personnel transfers. The question of how this affects publicness, and whether it pleases market advocates while stocking the fears of those who have long been concerned about a gradual shift of state powers toward a hollow state (Milward and Provan, 2000), is not an easy one to answer; rather, LGCs find themselves somewhere in between (Tavares and Camões, 2010). This is consistent with the clear positions of “conservatives arguing the case for shrinking governments and liberals fighting to grow it,” who, as Kettl (2015, p. 1) observes, frequently overlook the fact that an “increasing interweaving of governmental functions deeply into every fibre of the nongovernmental sector” has already occurred.

Recent empirical exceptions in this regard have been presented by Andrews (2022), Leclercq et al. (2020), and Papenfuß and Schmidt (2022). Andrews (2022) examines the role of publicness in the closure of English LGCs while calling for further research on the links between publicness and organizational dynamics at the local level. Andrews’ findings not only confirm the importance of considering multiple dimensions but also of ownership publicness for company survival; moreover, Andrews provides countervailing evidence for increasing control publicness by increasing the number of politicians on the board. Similarly, Leclercq et al. (2020) show that in the city of Liverpool, organizations that combine private and public sector characteristics have higher levels of publicness than those dominated only by single entities, assuming trust, inclusion, and collaboration. Papenfuß and Schmidt (2022, p. 254) examine the role of publicness as an “overlap between executive’s capabilities and public organizations’ requirements/-context” within German LGCs, demonstrating the importance of control publicness in that politicized executives are less likely to leave the organization.

LGCs, therefore, serve as a prime example of how publicness evolves. Understanding the evolution of publicness is in turn important for understanding the unique constitution

of LGCs. Chapter 5 summarizes how the insights from Chapters 2 through 4 can be embedded in this overarching debate.

1.1.3. Extended transaction cost framework

The transaction cost framework—a branch of new institutional economics—was one of the first analytical attempts to understand institutional production decisions about why an organization’s tasks are self-provided (internalized) or purchased from someone else (externalized). While it was originally intended for use in private firms, it has since been applied to public institutions; however, it is still rarely applied to LGCs. Under this framework, the transaction is the unit of analysis. According to Williamson (1996, p. 58), “a transaction occurs when a good or service is transferred across a technologically separable interface. One phase of activity ends, and another begins.”

Costs are incurred in organizing, monitoring, and evaluating production, which can occur both within and outside the organization. These can arise ‘ex-ante’ as a result of information, search, and negotiation costs associated with sourcing or identifying and binding partners, or ‘ex-post’ as a result of enforcement costs associated with target compliance and conflict or contract adjustment costs (Coase, 2013; Petersen et al., 2019).

The goal of the principal of an organization is to reduce the sum of production and transaction costs (Kogut, 1988). Therefore, principals choose institutional arrangements that minimize these costs. Arm’s length operator autonomy usually increases costs because, assuming bounded rationality, it involves uncertainty due to multiple new interfaces and the risk of opportunistic behavior and information asymmetry, which requires costly government oversight (Carr and Hawkins, 2013; Voorn et al., 2017).

The analytical measurement of transaction costs remains a challenge because the risk of escalating costs can only be estimated due to the inherent incompleteness of contracts. For example, Petersen et al. (2019) attempt to determine transaction costs ‘ex-ante’ by examining the reported proportion of monetary transaction costs in 47 Danish local government contracts. They find that costs were higher when services were more complex and lower when local governments had contracting expertise.

This points to important features of the transaction. Indeed, the extent to which bounded rationality/opportunism affects transaction costs depends on the characteristics of the transaction, especially how frequently it occurs, how complex/uncertain it is, and whether asset-specific investments are required. According to the TCF, these characteristics can be used to determine whether it is beneficial to shift outwards (Williamson, 1996).

Conceived from a rationalist economic understanding, traditional TCF has certain limitations in explaining organizational phenomena. Widespread behavioral assumptions ignore claims to power and identity, normative ties, or intrinsic motivation, all of which, as has been well-documented, co-shape organizations. To address this shortcoming and enrich our understanding of the organizational actor as a purely economic, the TCF, like the publicness debate, has evolved to include political aspects (North, 1990; Twight, 1994).

While economic transaction costs are concerned with the economic outcome of a decision, political transaction costs arise from interactions among political actors and prevent officials from making politically efficient decisions that can lead to reelection (Epstein and O'Halloran, 1999). While economic transaction costs are directly related to the characteristics of a product or service, political transaction costs are external to the transaction and affect the production decision.

TCF is still considered a useful tool, especially in its extension, and has now been applied not only in decisions for or against privatization (Bel and Fageda, 2007; Brown and Potoski, 2003; Lamothe et al., 2008) but also in a few cases of corporatization. Tavares and Camões (2007) studied 279 Portuguese municipalities using the political transaction cost framework to compare and contrast political and economic factors in production choices. They demonstrate that the shift to corporatized entities increases, especially in the presence of resource scarcity and heterogeneous preferences, as it takes services 'out of the line of fire' and minimizes political transaction costs. Meanwhile, an analysis by Rodrigues et al. (2012), which was conducted with Portuguese municipalities, confirms that, next to service characteristics, legitimacy concerns related to the political environment are very important when deciding whether or not to move service outward.

Despite TCF's continued presence, it is unclear to what extent its arguments hold for varying degrees of public ownership and thus the intensity and depth of corporatization. Using TCF as an explanatory framework for the production choices of local governments, Chapter 2 provides empirically grounded evidence to address this gap in the existing literature.

1.1.4. Organizational tension lens

Given the inadequacy of previous studies in elucidating corporatization dynamics, this study departs from the existing trends in corporatization literature to explore the applicability of other perspectives. The organizational tension lens can be understood as a framework bridging organizational theories and, thus, as a "heuristic device" (Berti et al., 2021, p. 22). It builds on the premise of classical organizational theory that organizations are complex systems that require a set of inputs, processes, and outputs to function effectively. It recognizes that these systems are characterized by inherent conflicts or tensions that must be managed. To explain the sources and nature of these tensions, the organizational tension lens also relies, for example, on institutional or resource dependency theory, when competing claims to legitimacy or interdependence with external stakeholders must be balanced (Berti et al., 2021; W. K. Smith and Tracey, 2016).

A closer look reveals that the transaction principle is also based on an inherent tension. While classical economics assumes that markets are frictionless and that exchanges between buyers and sellers occur smoothly and without cost, new institutional economics, such as TCF, is based on the fact that market frictions do exist: conflicting elements create costly frictions that are exacerbated by their greater heterogeneity, such as the resource capacities, interests, or values of local actors. While transaction cost theory views these frictions and associated costs as an undesirable consequence that can negate the intended benefits of competitive elements (Carr and Hawkins, 2013; Williamson, 2007), the tension lens considers them as potentially generative forces (Cloutier and Langley, 2017; Jarzabkowski and Lê, 2017). It bases its calculations on the long-term benefits of synthesis rather than on efforts, provided that tensions are properly managed. The study of such tensions is likely to become increasingly important as the world becomes more complex and ambiguous (Lewis, 2000).

The tension lens has gained popularity over time, largely due to the work of Lewis (2000) and W. K. Smith and Lewis (2011), developed within the framework of paradox theory. Although tensions are considered inherent in organizations (Ashforth and Reingen, 2014), some tensions involve easily resolved trade-offs, while others involve opposing but interdependent demands (Schad et al., 2016), that is, “undecidable trade-offs” (Berti and Cunha, 2022, p. 13). They can be “cognitively and socially constructed as paradoxical when actors polarize elements, ignoring or masking their interdependence” (Lewis and W. K. Smith, 2014, p. 133). Tensions, then, refer to the elements of an organization that appear logical in isolation but absurd and irrational when they occur simultaneously (Lewis, 2000, p. 760). Organizations are, for example, persistently torn between exploitation and exploration, unity and diversity (Saz-Carranza and Ospina, 2011), or control and autonomy (Andriopoulos and Lewis, 2009; Feldman and Pentland, 2003; Lewis, 2000; March, 1991). They must exercise control over their operations while also allowing units some autonomy in determining how best to operate (Ashforth and Reingen, 2014) since “failure can derive from not getting the balance correct” (Torsteinsen, 2019, p. 5).

Navigating tensions is therefore critical to organizational performance. Previous studies have demonstrated how this can be achieved (Jarzabkowski et al., 2013; Miron-Spektor et al., 2018; W. K. Smith and Tushman, 2005; W. K. Smith, 2014). While tensions can be defensively mitigated by focusing on one pole, long-term success depends on proactively pursuing opposing needs simultaneously. This can occur at the organizational and individual levels of “micro, everyday actions” (Jarzabkowski and Lê, 2017, p. 437).

Thus, the tension lens provides a useful analytical tool for linking growing tensions to the behaviors they produce. This connection is critical for shedding new light on the efforts required to leverage tensions at multiple levels of analysis. Organizational tensions have been widely discussed, particularly in the context of inter- and intra-organizational relations in the private sector. However, they have not yet been empirically applied to local government production choices or their consequences for organizations and individuals, let alone at different levels of analysis (e.g., Jarzabkowski et al., 2013; Lempiälä et al., 2022, for multilevel exceptions) or in cross-national contexts (e.g., Keller and

Loewenstein, 2011; Schrage and Rasche, 2022, for cross-national exceptions). Moreover, most existing research is qualitative or involves single-case studies, which may be attributed to the difficulties in operationalizing tensions (e.g., Andriopoulos and Gotsi, 2017). This comes with an immature understanding of the underlying causal mechanisms linking tensions to responses and a “fuzzy” notion of paradox (Berti and Cunha, 2022, p. 7) which has prompted calls to clarify its concept and advance its ontology (Hahn and Knight, 2021).

Chapters 3 and 4 take on this work by examining the extent to which tensions related to corporatization affect the evolution of LGC terminations and reinternalizations in England and Germany. Chapter 4 extends this work by showing how tensions are experienced and managed during these reinternalizations at the organizational and individual levels, focusing on the coping of reinternalized employees.

1.2. Outline of the dissertation

As established above, this dissertation comprises three empirical chapters based on three original datasets compiled and analyzed by the author using three different methods. Each of these three chapters investigates different aspects of the causes, dynamics, and consequences of local government corporatization. Each chapter addresses different gaps in the literature and different research questions, which are all embedded in the publicness debate. Ultimately, the responses to these questions are synthesized to answer the overarching research question. Chapter 2 begins with an analysis of the antecedents of local government corporatization. Chapter 3 elaborates on the reversal of this development (i.e., the termination and reinternalization of local government companies), and Chapter 4 looks at the associated consequences for local governments during reinternalization (Table 1.1 provides an overview of the designs used in Chapters 2 through 4).

More precisely, Chapter 2 addresses theoretical and empirical gaps in the corporatization literature. It applies an extended transaction cost perspective to unique empirical data using a novel measurement technique in this field. In this way, it surpasses the ubiquitous economic scholarship on production choices by combining arguments on

Table 1.1.: Research designs used in Chapters 2–4.

	Chapter 2	Chapter 3	Chapter 4
Corporatization dynamic	Intensification	Decline	Reversal
Theory applied	Transaction Cost Framework	Tension lens	Paradox lens
National setting	Germany	England & Germany	England & Germany
Period covered	1997–2017	2010–2020	2010–2020
Method used	Large-N regression analysis	Large-N random forest	Small-N comparative case study
Data used	11,062 company combinations	244 cases	223 documents/54 interviews

economic and political incentives to explore why German local governments enter into different LGC ownership arrangements given the ambivalent role of their companies and ambiguous outcomes. It further lays the foundation for the subsequent analyses by addressing the lack of solid empirical evidence in the corporatization context of German local governments. Specifically, it is driven by the following research question:

RQ 1: Why do local governments create and reform public service companies, given their uncertain economic benefits and potential damage to service transparency and accountability?

The answer to this question is achieved by developing a population-weighted longitudinal index. This index represents an innovative approach to corporatization that takes into account both the intensity and depth of corporatization as a function of formal ownership, going beyond the binary captures of previous quantitative studies and offering crucial insights for more sophisticated theories of corporatization. This research responds to the lack of solid evidence related to the corporatization of German local governments by providing sound empirical insights into the outward dynamics of more intensely corporatized service provision in Europe's largest member state. Additionally, this fine-grained measurement also contributes to research by testing the validity of the extended TCF arguments along the structural lineage of an LGC; that is, whether shifts toward indirectly-owned companies are driven more by political or economic considerations.

Data for Chapter 2 were manually compiled from 680 municipal investment reports from 34 German cities spanning 20 years (1997–2017), representing 11,062 combinations of annual company data points, as well as from various other sources, including city government websites, statistical offices, official registers, and financial statements. Investment reports were collected either online or from local archives in the field. R software was used to create the index of corporatization intensity as the dependent variable. The remaining data constituted the drivers of corporatization intensity, which were considered independent variables. Data were analyzed in R using two-way panel regression with fixed city and time effects. This method is useful for statistical inference because it reveals patterns in large cross-sectional datasets that would otherwise

remain overlooked (Berk, 2010). The findings show that corporatization in German local government has increased over the past ten years and that it was mainly driven by increasingly complex ownership structures in indirectly-owned companies. The results also support the relevance of using the extended TCF to understand the dynamics of service provision. Moreover, they suggest that political incentives seem better suited to explain the increase in corporatization intensity at lower levels of ownership.

Chapter 3 expands on Chapter 2 by moving from factors that intensify corporatization to factors that lead to company closure. It makes a clear methodological contribution, as it is one of the first works in the public administration literature to apply machine learning to decipher decision-making in local government (Anastasopoulos and Whitford, 2019). It also contributes theoretically by explaining choices for or against certain modes of service delivery through an organizational tension lens, linking the organization survival and corporatization literatures. This study examines how tensions influence whether a local government chooses to reinternalize services as a final solution when considering termination. Using unique data from Germany and England, it further fills the gap in systematic cross-national corporatization research. Ultimately, this chapter is driven by the following research question:

RQ 2: What impact do tensions inherent in LGCs have on whether a local government chooses or refuses to reinternalize formerly corporatized functions?

Portions of the German data for Chapter 3 were obtained from the Federal Statistical Office, while portions of the English data were sourced from a research team from the Universities of Birmingham, Cardiff, and Durham. Both datasets were supplemented by secondary research, which involved extensive desk research and 25 telephone inquiries to local officials before being cross-checked with the North Data (2022) database using R to obtain any remaining missing information, yielding a set of 244 companies that ceased operations between 2010 and 2020. This provided the analytical foundation for using a machine learning approach, specifically, random forest classification (Liaw and Wiener, 2002). Employed decision trees were used to split the dataset into two local government decision paths: reinternalization of the service into the core administration

or no reinternalization. This method has an advantage over traditional regression in that it can map non-linear relationships in datasets (Breiman et al., 2017), which allows it to better reflect the causal complexity of the data (Achen, 2005).

Chapter 4 presents the consequences of these company terminations, moving one step forward from the outward to the inward dynamics of local service provision. It addresses voids in the literature on corporatization and paradoxes by linking the two strands of research and providing multilevel, cross-national insights based on a unique dataset of multiple incidents of reinternalization. More precisely, it seeks to understand, through a paradox lens, how local governments and their reinternalized employees experience and compensate for tensions that arise when services (tasks or personnel) are brought into the core administration (2010–2020) in the aftermath of corporatization. Accordingly, it was activated by the following research question:

RQ 3: How do reinternalized local officials experience and cope with paradoxical tensions, vis-à-vis the organizational actions taken during reinternalization from former LGCs?

To this end, it uses extensive documentary data and semi-structured interviews with experts involved in local reinternalization across English and German local government contexts.

In comparison to statistical procedures, Chapter 4 represents a qualitative comparative study, which has the advantage of imposing “controls not by partial correlations but by selecting comparable cases, and that it [works] most effectively with a small number of cases” (Levy, 2008, p. 10, quoting Lijphart, 1975). It is based in part on the dataset of Chapter 3. Those terminated LGCs that met the requirements of the comparative analysis (i.e., that were reinternalized into the core administration between 2010 and 2020) were selected from the dataset after adjusting for those that did not provide sufficient information for an in-depth qualitative analysis. After the final selection of 19 cases (7 English and 12 German), case-relevant data were obtained through 54 semi-structured interviews and analysis of 223 documents from city government websites, financial statements, reports, and news articles. The analysis was based on qualitative coding of this textual material that combined deductive and inductive coding (Miles

et al., 2013). The coding was conducted using MAXQDA software and revealed how local governments experienced and dealt with the reinternalization of services following corporatization. The findings reveal that in both countries, organizational responses to reinternalization are ultimately interrelated with the agency and response capacity of those who have been reinternalized and are mainly experiencing the tension of role and goal incongruence. Moreover, reinternalization is shown to have transformative power, albeit limited, to induce private-sector informed change in bureaucracies, even when ownership publicness is restored under public law. This study notably clarified that the implementation of reversal decisions must be included in analyses that claim to holistically understand the dynamics of public service delivery and its implications.

This dissertation, therefore, employs a mixed-methods approach that combines statistical analyses (large-N within-country variation in Chapter 2 and large-N cross-country evidence in Chapter 3) with a comparative case-study analysis (small-N cross-country evidence in Chapter 4) (Bergman, 2008). This design was chosen because it has high synergistic value for achieving a comprehensive phenomenological understanding without sacrificing analytical depth (Lieberman, 2005).

In terms of epistemology, Chapters 2 and 3 can thus be classified as belonging to the positivist research tradition in public administration, as they use existing theories in their analysis when identifying covariates (Whetsell and Shields, 2015). However, some argue that the use of machine learning in Chapter 3, with its aptitude for social prediction, compounds a clear-cut allocation to a research paradigm (Y. Chen et al., 2021). Positivism is commonly associated with quantitative research that seeks to establish “value-free” relationships, by primarily using deductive methods (H. J. Rubin and I. S. Rubin, 2011, p. 4). While this aids the study in achieving verifiable and reproducible findings through inter-subjectivity, tenants of interpretivism point out that the research process, data collection, hypothesis generation, and analysis are all interpretive, as is the world it investigates. This post-positivist tendency of interpretivism has gained popularity, especially among those who want to understand how the subjects under study make decisions (Goldkuhl, 2012). Accordingly, Chapter 4 complements an interpretivist approach in the following ways: First, its coding of qualitative text is inherently biased to the coder’s self-concept. Second, using a tension lens deductively,

the design seeks to understand, in a case-sensitive manner, how interviewees shape and interpret their environment in ways that enables them to deal with tensions.

In the sense used by Charles S. Peirce and John Dewey, pragmatism exists somewhere between the ontological extremes of positivism and interpretivism (Wicks and R. E. Freeman, 1998). It seeks to transcend the dichotomies of philosophical traditions and, as a result, “has an interest not only for what ‘is,’ but also for what ‘might be’; an orientation toward a prospective, not yet realized world” (Goldkuhl, 2012, p. 140). The primary objective of epistemological pragmatism is to create knowledge in support of change (Kaushik and Walsh, 2019). This entails studying system dynamics, such as corporatization, and deciphering their causes and resulting consequences, which raises awareness of potential procedural pitfalls and creates blueprints for future events. Thus, while each empirical chapter corresponds more or less to a single research paradigm (two positivists, one post-positivist), the dissertation’s hybrid design adopts a pragmatist or, more broadly, a post-positivist stance, seeking to benefit from the strengths of both approaches while balancing their limitations.

The study’s mixed-methods approach also allows for the kind of multi-level research that is lacking in corporatization studies. While Chapters 2, 3, and 4 share a focus on local government as a reform-oriented decision-making entity, they differ slightly in their units of analysis. This opens up the possibility of combining the macro, meso, and micro levels throughout the dissertation, which would respond to calls for more cross-level research to prevent “a schism approaching” (Moynihan, 2018, p. 1) and for researchers to position themselves more clearly in terms of analytical levels (Roberts, 2020).

While Chapters 2 through 4 examine macro-level impacts by incorporating factors such as the national context or government interventions, Chapters 2 and 3 examine patterns in a population of LGCs (meso level). In addition, microfoundations are included in Chapter 4 to illuminate individuals’ self-concepts during organizational change.

In sum, this dissertation analyzes extensive and diverse data using a variety of theoretical and methodological approaches to develop a multidimensional view of local government corporatization that addresses several research gaps. In doing so, it offers a holistic yet nuanced view of the dynamics of corporatization, including antecedents

of intensified corporatization and reverse corporatization, as well as the experiences of local governments and employees subject to the reinternalization into the core administration.

Chapter 5 concludes the dissertation. Chapter 5.1 synthesizes the main findings and contributions of Chapters 2 through 4, including their place in the publicness debate, and summarizes how the study answers its driving research question. Chapter 5.2 outlines implications and limitations for research. Chapter 5.3 details the outlook for research and practice.

2. Shifts in local governments' corporatization intensity: Evidence from German cities

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2.1. Abstract

Why do local governments create and reform public service companies, given their uncertain economic benefits and potential damage to accountability and service transparency? Taking an extended transaction cost perspective, we argue that corporatization—the provision of public services by publicly owned companies—is a function of fiscal hardship, the decision maker's economic orientation and the level of operator transparency. Using a two-way fixed effects regression, we test this expectation on 680 investment reports of 34 German cities from 1998 to 2017, representing 11,062 year-corporatized entity combinations. We show that the drivers of corporatization are sensitive to the scope of a city's engagement in corporatization and the depth of local ownership analyzed. In doing so, we highlight the theoretical need and potential for conceptual differentiation between ownership levels along a corporation's lineage. Exploiting the data's panel structure, we also find that the intensity of corporatization has heightened since the late 1990s, largely due to increasingly complex corporate structures of indirect ownership.

Keywords: Extended transaction cost theory, Corporatization, Local government, Two-way fixed effects regression

2.2. Introduction

Local governments employ a variety of organizational arrangements to provide public services (Elliott, 2002). Among these, municipal corporations provide a middle-ground strategy that moves fully in-house production toward more market-based forms, without proceeding to contracting out or full privatization (Bel and Fageda, 2010; Bilodeau et al., 2007). These single- or multi-purpose public corporations are organized through different combinations of public and private participation, managed by an executive board appointed by local government officials, and operate under private rather than public law (Voorn et al., 2017). Scholarly literature has recognized this as ‘corporatization’ (Grossi and Reichard, 2008), with examples in several countries (Bergh et al., 2019; Bernier et al., 2022; Cepiku et al., 2016; Ferran and Puey, 2016; Friedländer et al., 2021; Gradus et al., 2014; Tavares, 2017).

The proliferation of corporatization is often reflected against the backdrop of the liberalization and privatization initiatives first launched in North America and somewhat later in the European Union (EU) in the mid-1990s, which led to standardization pressures among EU member states, also affecting local reform (Gröbe et al., 2022; Kuhlmann, 2008; Ongaro and van Thiel, 2018; Voorn, 2021). This form of service delivery was touted as a panacea to address “an actual or perceived crisis of legitimacy, responsiveness and efficiency in government” (Thynne and Wettenhall, 2004, p. 609). It held the prospect of benefiting from more flexible private law, away from what is referred to as the ‘corset’ of the bureaucratic public sector, while retaining democratically important control rights (Tavares and Camões, 2007). The enthusiasm for corporatization among local governments, however, generated a normative debate about the capacity and legitimacy of the public sector to operate economically (Haque, 2001; Voorn et al., 2017). Arguments against the public sector’s ability to do so included that the lack of competitive pressure limited incentives to use resources effectively, and that intensive oversight led to increased costs. Moreover, the rise of corporatization is naturally accompanied by the loss of municipal discretion, which accelerates with the operator’s autonomy, in an increasingly intricate web of directly- and indirectly-owned shareholdings, consisting of both formal rules and informal methods of organization.

It potentially favors profit-maximization over public interest as well as blame shifting in the form of ‘shadow budgets’, and the risk of ‘bureau-shaping’, which caused concerns, particularly in Germany, about cities’ increasingly ‘neoliberal’ orientation (Becker et al., 2015; Grossi and Reichard, 2008; Killian and Richter, 2006; Schröter et al., 2019; Theuvsen and Zschache, 2011). In response to growing fragmentation and opacity, many local governments installed self-regulatory mechanisms, albeit with limited proven effectiveness (Papenfuß and Schmidt, 2021).

Similarly, while some researchers considered corporatization to be a pertinent trend (Ferry et al., 2018; Gradus et al., 2014) and held that efficiency expectations had been met (Torfing, 2019), international experience points to signs of disenchantment, leading to company closures and reinternalization to core administration within the menu of publicly provided services (Andrews, 2022; Camões and Rodrigues, 2021; Friedländer et al., 2021).

Despite the contentious history of corporatization as a public management reform strategy, surprisingly little robust evidence surrounding its driving forces has surfaced over time. It has also been claimed that scholarly attempts to approach service delivery choices have been somewhat one-dimensional and do not adequately reflect the theoretical debate oscillating between economic incentives and accountability or legitimacy concerns (e.g., Lamothe et al., 2008). Empirical studies seeking to explain production choices predominantly rely on the transaction cost framework (TCF). Since cost-saving pressure is a permanent phenomenon in many local governments, the economic TCF, with its central claim of cost minimization, provides a valuable theory to explain service delivery decisions. Despite its continued strength, however, its strict imperative on economic efficiency does not sufficiently account for the political decision-maker’s need to maintain legitimacy by adhering to their normative contexts (Epstein and O’Halloran, 1999; Sullivan et al., 2013). Normative pressures and their behavioral implications are, in turn, what institutional theory centers around. In fact, extant research on government production decisions points to synergistic value of adding political aspects to the economic TCF, especially for understanding ambiguous environments (e.g., Frant, 1996; North, 1990). This evidence suggests an explanatory force for the context of corporatization. In particular, corporatization and thus (partial) decoupling from the bureaucratic

“corset” can be motivated by a variety of self-serving and even contradictory incentives that potentially go beyond the pursuit of economic efficiency. This ambidexterity inherent in corporatization can be captured by factoring in political to standard economic transaction costs. So far, political transaction costs have only marginally been explored in the field of corporatization (see Camões and Rodrigues, 2021; Rodrigues et al., 2012; Tavares and Camões, 2007). Rodrigues et al. (2012) and Tavares and Camões (2007) investigated the role of political transaction costs in the creation of Portuguese municipal corporations; Camões and Rodrigues (2021) did the same for their termination. Relatedly, empirical research has neglected the role of declining transparency, one of the most pressing issues related to control and accountability claims under structural differentiation (Papenfuß and Schmidt, 2021; Schröter et al., 2019).

Moreover, while the few longitudinal studies cover municipal corporations within a range of state structures and reform in Canada (Bernier et al., 2022), Denmark (Gradus et al., 2014; Schoute et al., 2018), England (Andrews et al., 2020; Andrews, 2022), Germany (Lindlbauer et al., 2016; Stiel, 2022), Portugal (Tavares and Camões, 2007; Tavares and Camões, 2010), and Spain (Alonso et al., 2022; Bel and Fageda, 2010), again underscoring the prevalence of corporatization, all use the corporatized entity (in direct ownership) as the unit of analysis (binary capture) and thereby do not factor in subtle shifts in deeper ownership structures including first- and lower-tier subsidiaries. In this way, they miss recording critical decision points for or against intensified corporatization, mirrored in the purchase and disposal of shares. However, focusing on such subtleties would allow for more sensitive testing of the validity of theoretical arguments as a function of ownership level.

Motivated by the deficits in corporatization research, this study asks: Why do local governments create and reform public service companies, given their uncertain economic benefits and potential damage to service transparency and accountability? To this end, it maps local governments' corporatization not only in directly-owned entities but also in all first- and lower-tier subsidiaries and explores its determinants in the context of the 20-year theoretical debate on economic and political incentives and countervailing reform. It also traces developments in Germany, a case representing a large and prosperous European economy with a distinct trajectory that has likely been re-

flected in local government decision making (C. Pollitt, 2006; Schröter, 2019). Thus far, German corporatization research has been chiefly theoretical or premised on specific sectors and limited datasets (Daiser and Wirtz, 2021; Edeling et al., 2007; Killian and Richter, 2006; Lindlbauer et al., 2016; Linhos, 2006; Papenfuß, 2012; Stiel, 2022; Trapp and Bolay, 2003).

We extend existing literature in three ways: First, this study advances the understanding of corporatization through an innovative measure: We apply a continuous, comprehensive index of corporatization intensity calculated using 680 investment reports from 34 cities in Germany's largest state, North Rhine-Westphalia (NRW), published between 1998 and 2017. In total, the index incorporates 11,062 year-corporatized entity combinations, integrating all major and most minor first- and lower-tier subsidiaries, and allows the description of intricate developments of corporatization. The index structure has the obvious advantage of opening the prospect of considering corporatization intensity and separating direct and indirect ownership. From this, we learn that recent corporatization at the local level is not merely limited to creating public companies with direct municipal ownership but is instead driven by the development of increasingly complex subsidiary structures of indirect ownership. Relatedly, our results indicate that the impact of potential drivers is critically dependent on the proximity of the corporatized entity to the local government and, thus, on analytical depth. Second, this measurement allows for more nuanced theorizing of corporatization. By combining economic with political transaction cost arguments and testing them along ownership structures, we add the aspect to the discussion of public organizing in private law settings. Thus, we advocate for an integrative approach to understanding corporatization in its intricacy and ambiguity. Although some results are puzzling, political transaction cost arguments may be particularly suited to explain shifts toward lower-tier subsidiaries. Third, we take advantage of the panel data, which is relatively novel in corporatization research. We propose more robust estimates than those presented in most previous studies, by applying a two-way fixed effects regression within a 20-year panel dataset.

Following these lines of argument, the remainder of the article is structured as follows. Section 2.3 presents the underlying theory. Section 2.4 describes the data and

methodology. In Section 2.5 and 2.6, we present and discuss our results. In Section 2.7, we conclude.

2.3. Theoretical background

We first position corporatization in the larger landscape of New Public Management (NPM) oriented reforms. We then build on economic and political transaction cost scholarship to derive a series of testable hypotheses about factors leading local governments to adjust their corporatization intensity (understood as the scope of corporatization). We also consider assertions about increasingly branched structures of directly- and indirectly-owned German municipal corporations (Friedländer et al., 2021), arguing that the validity of theoretical arguments is sensitive to the analyzed depth of the ownership structure, that is, whether or not corporations' first and lower-tier subsidiaries are considered.

The administrative reform debates of the 1980s and 1990s were characterized by the economization of the public sector. The NPM agenda, with its management-oriented mode of governance, had a lasting influence on public administration, even though it was adopted inconsistently across countries (Proeller and Siegel, 2021). In Germany, a strongly federalist, legalistic country known for its distinct Weberian *Rechtstaat* tradition marked by principles of transparency, accountability, and impartiality, reform approaches endorsing private-sector elements like the corporatization of public service provision were viewed with at least some skepticism, while others, such as the United Kingdom, embraced a more market-oriented stance (Kuhlmann, 2008; C. Pollitt and Bouckaert, 2017). The debate on the erosion of public-private distinction raised the concern that the associated structural differentiation would entail cultural differentiation by shifting institutional boundaries and actor constellations toward multiple—and to some extent even incompatible—norms, values, and attitudes (Haque, 2001). While some saw this as a welcome path toward efficient and adaptive administration (Skelcher and S. R. Smith, 2015; Tremml, 2021), others feared a loss of publicness in public services linked to important democratic foundations (Andrews et al., 2011; Berge and Torsteinsen, 2022; Crosby et al., 2017; Voorn et al., 2017; E. Sørensen and Torfing,

2009). Once converted to private law, local governments can only exert indirect influence over companies through incorporation, assemblies, boards, and the appointment of board members, with the extent of formal influence depending upon the scale of the stakes. The governance structure of principals is multi-layered, comprising the mayor or a representative, city council delegates, and external shareholders (mixed-owned entities) who bring to the table their own *modus vivendi*. Thus, a tendency to associate corporatization with weakened centralized control and increased transaction costs becomes inevitable (Grossi and Reichard, 2008).

2.3.1. Extended transaction cost explanations for shifts in corporate ownership levels

A prominent argument for corporatized service provision of the time, as reflected in the economic TCF, was the pursuit of efficiency given the tight budgets over the last few decades (e.g., Amirkhanyan et al., 2007). The TCF suggests that any form of exchange is related to comparative costs, which impair efficiency. The most appropriate mode of service delivery is the one that economizes public service delivery by minimizing the transaction costs resulting from planning, (re-)negotiating, and managing relative to production costs (Petersen et al., 2019). Indeed, high transaction costs might be tolerated if they enable large savings in production costs and the net effect is beneficial (Williamson, 1989). Yet still, according to this idea, it is more efficient to limit the need for interaction between two or more units involved in a joint task at every level of production costs.

For local decision-makers, this may have opposite implications. On the one hand, internal regulation could entail lower transaction or regulatory costs than external regulation involving managing multiple stakeholders with diverging logic or incentives (Fiss and Zajac, 2004). On the other hand, higher administration costs could accrue compared to out-of-house delivery due to extensive internal red tape. Given the degree of hierarchical control, however, the internal costs can offset the cost of external monitoring (Williamson, 1989).

However, the TCF has been criticized because its purely material understanding of costs ignores normative aspects induced by the political environment, which co-shape

production decisions (Dixit, 1998; Epstein and O'Halloran, 1999; North, 1990). Indeed, individuals are expected to pursue legitimacy within their field by rearranging organizational environments ('bureau-shaping') (Bergh et al., 2019; Damanpour, 1991), seeking not necessarily productive efficiency but allocative efficiency (Frant, 1996). Against this background, the transaction cost approach has been broadened to include political aspects, as not only economic trade but also political interaction are costly, and these considerations ultimately affect production decisions. Political transaction costs are those costs that can hurt the legislator's credibility and make re-election less likely. Decisions on production modes must be made considering that re-election is "the *sine qua non* of a public official" (Epstein and O'Halloran, 1999, p. 5) and weighing the risk of displeasing constituents (J. G. Christensen and Pallesen, 2001; Frant, 1996). As a result, decision-makers may tend to favor a particular profile of corporatized services that are not necessarily the most economical. Its effects have been investigated for directly-owned municipal companies. Tavares and Camões (2007) studied Portuguese municipalities and found that, especially in times of heterogeneous preferences, shifts to corporatized entities increased, minimizing political transaction costs. In a similar setting, (Rodrigues et al., 2012) confirm that political legitimacy concerns were crucial in transfer decisions. Evidence of the presence of effects in altering levels of ownership, however, remains scant. In particular, economic efficiency arguments seem less plausible in the case of indirect municipal ownership of lower-tier subsidiaries of corporatized entities, which are often associated with large operator autonomy (Voorn et al., 2017). While they may yield efficiency at the firm level, conceived from a central control understanding, these 'distant' entities are likely prone to inefficiencies because oversight becomes ever more intricate and add another layer of compromises, delays, and risks inherent in joint working (Vangen, 2017a). Simultaneously, the parent-company steps in as an additional actor between the principal and the agent, resulting in even less discretionary power for the local government (Egeberg and Trondal, 2009). Depending on the governance structure of these sub-subsidiaries, corporate decisions may be made by the parent company's board, but the formal proximity to the local government inevitably diminishes (Stiel, 2022; Trapp and Bolay, 2003). Thus, if arguments in favor of transferring public service provisions into private law to increase economic efficiency

no longer apply as clearly in the case of indirectly-owned companies, other motives may underlie this transfer decision. Following the logic of the TCF, we argue that political legitimacy is a potential driver for increasing the intensity of corporatization toward indirect municipal ownership. We discuss this basic assumption in terms of three aspects of local government and examine at which level of ownership, if any, they show an effect: Fiscal burden, the economic orientation of decision-makers, and transparency-enhancing reform measures. All three aspects are frequently associated with production decisions in the literature but, so far, have received no empirical investigation as drivers of corporatization intensity concerning different tiers of public ownership.

For decades, cities across Europe, including many in Germany, have suffered from extensive debt and fiscal pressure (e.g., Freier and Grass, 2013). From a TCF standpoint, cities have a stronger urge to seek efficiency at times of austerity. Whether this leads to hived-off service delivery remains somewhat ambiguous (e.g., Andrews et al., 2020; Bel and Fageda, 2010; Brown and Potoski, 2003; Schoute et al., 2018). We pursue the argument of Andrews et al. (2020) that high levels of fiscal pressure incentivize local governments to transfer activities to new corporate entities. Moving public services to the jurisdiction of private law allows greater flexibility in circumventing legal constraints on state-imposed debt limits and in accessing financial resources compared to “the rigidity of the public purse” (Schröter et al., 2019, p. 207). Taking out loans, fixing wages, and generating extra revenue can relieve municipal coffers to bridge periods of austerity (Tavares, 2017).

However, conceptual differences exist between temporary and constant fiscal hardship. Temporary fiscal hardship is primarily linked to fiscal variables with high volatility induced by business cycle fluctuations, such as business tax revenues or short-term debt (Boettcher et al., 2001). The latter must be repaid within one year and is typically used to keep the municipal cash flow running, especially in times of crisis. Therefore, it is more closely tied to the local government’s core budget. As such cyclical but also unexpected natural or human-made crises can occur, indebted local governments are incentivized to increase efficiency by corporatizing public services. Still, they prefer to keep their economic assets at arm’s length for (re)development (Schröter et al., 2019). Short-term fiscal hardship may therefore prompt local governments to intensify more

accessible direct ownership corporatization. In terms of the economic TCF, these aspects lead cities in acute fiscal distress to favor direct over indirect ownership. Constant fiscal hardship, in turn, is linked to less volatile fiscal variables like demography-related expenditure needs or long-term debt with maturities greater than twelve months. These follow a different logic because they are often investment-related, structural, and not easily reversed in a positive direction. Highly indebted local governments can transfer and 'hide' portions of their financial activities (including debts), particularly to entities that are more 'hidden' at lower ownership levels (Herrmann, 2012). However, once a corporatized entity is indirectly owned by the government, this leads to additional transactions and increases the need for costly coordination and oversight, counteracting expectations of more economically cost-efficient task performance through private law (R. J. Sørensen, 2007). While indirect ownership is not ultimately attractive from the perspective of economic transaction costs, from the perspective of the political transaction costs, delegating tasks to indirect ownership may be explained by the desire for political benefits achieved by (cosmetically) eking out municipal coffers. Brender (2003) and others show that a mayor's re-election probabilities are indeed linked to the local government's fiscal performance. Thus, prosperity is signaled to constituents, potentially improving re-election prospects (J. G. Christensen and Pallesen, 2001). In light of this, the following hypotheses are proposed:

Hypothesis 1.1a: Temporary fiscal hardship positively relates to corporatization, especially to direct ownership.

Hypothesis 1.1b: Constant fiscal hardship positively relates to corporatization, especially to indirect ownership.

Although mayors in European countries constitutionally hold different voting rights in the decision-making council, they function as its ex-officio chair and can provide impetus and set agendas (Wollmann, 2004), thereby driving reform and policy change (Damanpour, 1991). Consequently, it can be assumed that mayors with economic spirit and capabilities will lead the organization toward arrangements outside the bureaucratic corset like corporatization, as they may find it difficult to make public service provision more efficient due to inflexible rules and routines, a tendency toward risk avoidance,

or institutional closure (Gupta et al., 2014; Hartley et al., 2013). This spirit may be reinforced by years spent in the private sector or business-related education, as experience provides the impetus and knowledge to deal with uncertainties surrounding the creation and maintenance of new entities, alleviating transaction costs (Brudney et al., 2005; Cabral, 2017; Noordegraaf et al., 2005). This explanation is more robust for direct ownership when economic-minded mayors seek monetary cost-cutting. It has less explanatory power in the case of indirect ownership, where potentially higher transaction costs through more intense coordination accrue. In addition to private-sector experience and business-related education, the mayor's party affiliation also provides insight into their attitude toward market-oriented public service delivery. Research on partisanship often employs a left-right contrast, stating that bourgeois parties tend to be less hesitant about marketization (e.g., Petersen et al., 2015). Still, limited empirical backing supports this claim regarding production choices (Bhatti et al., 2009). We argue that conservative mayors may bring greater business expertise and satisfy their political camp by increasing municipal economic activity even toward indirect ownership, thus fitting their normative context (Andrews, 2022; North, 1990). In doing so, they may also give strategic leeway to private partners' affairs or position loyal management staff to serve as an extended arm of personal interests (Schröter et al., 2019; Stiel, 2022), potentially reducing political transaction costs. Given these reasons, we examine the relevance of economically oriented mayors in intensifying corporatization. The aggregation of these arguments results in the following hypothesis:

Hypothesis 1.2: The greater the incumbent mayor's economic orientation the more intense the corporatization at direct ownership levels.

With its potential influx of business logic into the public sector, the rise of corporatization entailed critical transparency and accountability deficits and prompted institutional responses aimed at countering 'shadow budgeting' or 'bureau-shaping'. One instance is the self-regulatory public corporate governance code established in German cities and elsewhere (Papenfuß and Schmidt, 2021), which represents the adoption of monitoring practices for transactions. Papenfuß and Schmidt (2021) testify to their intended effect of strengthening accountability. Another example is implementing the consolidated

statement in local government's financial reporting as part of Germany's NPM-related accrual accounting reform. This statement provides the complete picture of the financial situation of the core budget and all public companies' budgets, enhancing transparency. Wedlin and Sahlin (2017, p. 115) highlight a shift in the discourse toward transparency, which follows the logic of an enhanced "audit society", instilling "new norms and values by which external regulatory mechanisms transform the conduct of organizations and individuals (...)". From an economic TCF perspective, deeper insights into corporate behavior are associated with higher monitoring costs, but these may be offset by higher levels of information and reduced uncertainty (Brown and Potoski, 2003; Williamson, 1996). From a political TCF perspective, increased transparency in the event of deviation from altering norms is associated with the risk of escalating political transaction costs. Avoiding these costs may make legislators withdraw, especially from lower levels of corporatization. Reforms are likely to enhance transparency if the related reporting mechanisms provide more comprehensive insights into corporatization practices and local government budgets (Santis et al., 2019). This is why they have the potential to prevent organizations from allocating liabilities to corporations and from avoiding evaluation in an attempt to decouple from the bureaucratic 'corset' (Grossi and Reichard, 2008) and thus, from deviating from legitimate norms (Schröter et al., 2019). Consequently, evidence of the effectiveness of these self-regulatory reforms particularly on companies that can 'hide' at lower ownership levels would suggest that they lose their instrumental political purpose of "self-interest seeking with guile" (Williamson, 1975, p. 6) and that normative pressure does inform these delivery decisions. Thus, we propose the following hypothesis:

Hypothesis 1.3: Introducing transparency-promoting policy reforms adversely affects especially lower levels of corporatization.

2.4. Data and method

To validate the hypotheses, NRW cities of 50,000–500,000 inhabitants (as of 2017) were selected. NRW was chosen for several reasons. First, the German state has the highest number of cities with more than 50,000 inhabitants. Simultaneously, the fo-

cus was on one federal state to ensure legal and institutional homogeneity within the dataset. For comparability, cities, with a population above 500,000 were not included for their unique administrative and ownership structures. Second, many NRW cities have long suffered from high fiscal pressure (Freier and Grass, 2013), rendering them appropriate for analyzing the relevance of the budgetary situation. Third, this state's local law is more restrictive of direct mayoral influence on corporatized entities than most other German states. Thus, the effects of the NRW mayors' economic inclinations, if identified, can be transferred to states where the mayor has greater power.

Data on each city's corporatized service provision were collected manually from 680 annual investment reports across 34 cities over 20 years (1998–2017) (for a complete list of cities, see Annex, Table A.3). Of the 72 NRW cities that met the population size criterion, 34 had all reports in their archives. A comparison of means and empirical distributions shows that the sample cities do not differ systematically from non-sample cities in size or debt per capita (see Annex, Figure A.1).

The retrieved data focused on investment shares of companies of which the city is a full/partial direct owner, all subsidiary companies, and subsidiaries of the subsidiaries. Thus, most companies directly- or indirectly-affiliated with each local government are mapped, and their development has been tracked for over 20 years. We only consider limited liability companies (Ltd), as the most common legal form in the investment reports analyzed in order to create the largest possible database while ensuring comparability. Corporatized entities where a city holds less than 10% are not part of the index since many investment reports do not include such low-relevance companies.

2.4.1. Dependent variable

Investment shares were used to calculate an index of corporatization intensity following Trapp and Bolay (2003) (Figure 2.1). For instance, if a city owns 75% of a corporatized company, the index increases by 0.75. If the company has a 100%-owned subsidiary, the index also increases by 0.75 (= 0.75 times 1), and so on. For index calculation, all shares a city holds in its different corporatized companies and their subsidies in a specific year were summed up. In our sample, the resulting values range between 0.52

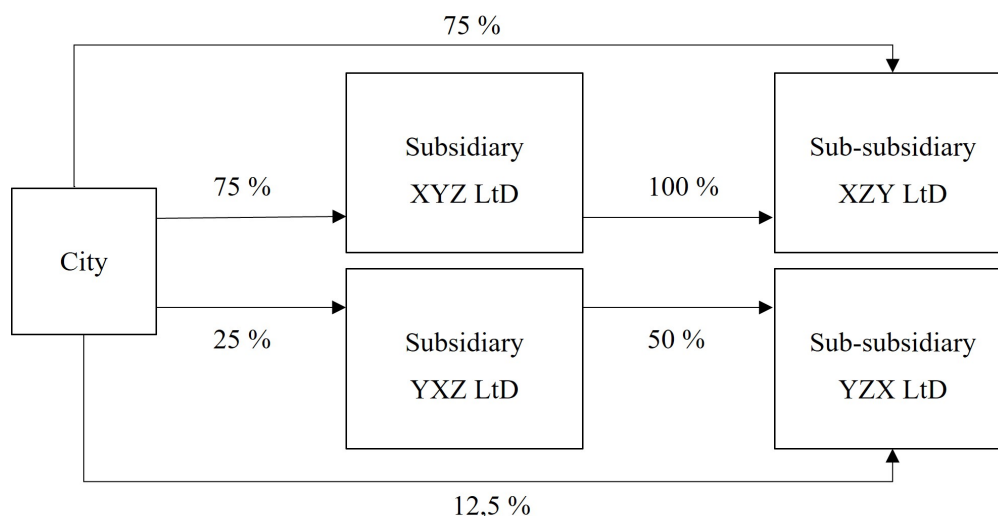


Figure 2.1.: Examples of calculated corporatization intensity derived from Trapp and Bolay (2003, p. 22). The letters ‘X’, ‘Y’, and ‘Z’ are used as placeholders for LGC names.

and 23.97 and critically depend on whether we integrated subsidiaries in a specific index version or not.

As larger cities usually have more corporatized entities, their index is naturally higher; therefore, it was weighted by population size (average per city from 1998–2017). This is our dependent variable. Within the period of interest, certain cities had developed complex corporatization structures with six or more subsidiary levels. Our index is a straightforward way to capture this complexity. To give a comprehensive picture, different index versions were developed. The three base indices depend on the corporatized companies’ proximity to the local government. Index 1 includes those entities in which the city has full or partial direct ownership. Index 2 adds the first-tier subsidiaries of directly-owned companies to index 1. Index 3 integrates all existing subsidiary levels. For each of these three indices, we differentiate two ownership levels in which the city directly or indirectly holds more than 25% and secures a blocking minority or more than 10%, representing the most comprehensive notion of the municipal group. For example, the index with direct ownership of more than 25% includes only those corporations in which the city directly holds more than 25% and, therefore, enjoys the power to veto company decisions. By contrast, the index that reflects the city’s entire corporatization structure includes all directly-owned corporations and all first and lower-tier subsidiaries with more than 10% ownership. We use the three base indices

(direct, direct plus subsidiaries of tier one, and entire municipal group) with ownership levels of at least 10% to depict the development of corporatization intensity over time. For the subsequent panel regression analysis, we employ indices representing direct ownership versus the entire municipal group for share levels of at least 10% and 25% because we believe comparing the extremes in corporate structures will bring the most nuanced results. In total, we employed five index levels. The upper panel of Table 2.1 lists descriptive statistics for all nine indices.

Table 2.1.: Descriptive statistics of the model variables. Long-term debt, short-term debt, and business tax revenue per capita are measured at 100 euros; total personnel expenditure is measured in Mio. EUR and limited contract/youth share is a percentage. To give an impression of index values as the sum of shares, the descriptive numbers of the dependent variables are not population-weighted. All data stem from either our own research or the NRW and federal offices of statistics.

	(1)	(2)	(3)	(4)
	mean	sd	min	max
Dependent Variables				
Index (10 Percent/Level 1)	4.033	1.998	0.864	9.650
Index (10 Percent/Level 2)	6.761	3.278	0.864	19.61
Index (10 Percent/Level 10)	7.752	4.101	0.864	23.97
Index (25 Percent/Level 1)	3.828	1.970	0.515	9.409
Index (25 Percent/Level 10)	7.231	3.917	0.864	23.12
Independent Continuous Variables				
Short-term debt (pc)	8.333	12.32	0	75.07
Business tax revenue (pc)	4.449	2.118	0.343	18.01
Long-term debt (pc)	12.50	6.210	0	33.57
Youth share	33.00	2.599	26.01	39.85
Personnel expenditure	78.85	91.41	17.27	645.1
Limited contract share	4.698	3.004	0	21.33
Independent Dummy and Count Variables				
Consolidated Statement	0.125	0.331	0	1
Strengthening pact	0.094	0.292	0	1
Pub. Corp. Gov. Code	0.104	0.306	0	1
Election year	0.200	0.400	0	1
Educ. mayor	0.150	0.357	0	1
Priv. sector exp. mayor	0.265	0.442	0	1
Party mayor	0.438	0.497	0	1
Party council	0.346	0.476	0	1

2.4.2. Independent variables

Based on a comprehensive review of the scholarly literature on local decision-making behavior in general and corporatization in particular, we derived 14 potential independent drivers to be added to the panel. Data were collected from our research or the NRW Office of Statistics. To account for fiscal hardship, we use four lagged variables to explain the previous year's financial state of the core budget: One for revenue, one for expenditure, and two for the debt of differing maturity. Long-term debt comprises all debt held by the public/private banks plus local government bonds excluding the non-investive short-term debts a government takes on to cope with temporary liquidity constraints. The latter is a common indicator of immediate fiscal stress (Boettcher et al., 2001), whereas high long-term debts imply general fiscal hardship (Deutsche Bundesbank, 2021). Business tax is the most relevant source of local tax revenues, it fluctuates with the business cycle and is, therefore, another variable linked to short-term fiscal stress. In contrast, youth share is considered a stable and relevant indicator of expenditure needs.⁵ German local governments are responsible for several expensive youth-related public services that they are obligated to provide. Compared to pure public expenditure, the advantage of using this variable is that it represents actual expenditure needs rather than just money spent (which may be insufficient). In general, it is more closely related to long-term fiscal hardship. All budget-related variables are measured in levels.

Three variables measure the mayors' economic orientation potentially leading toward alternative ways of organizing. One is the mayors' education, proxied by a dummy equal to one if a mayor has received business-related education. Another dummy mirrors private sector work experience gained before the election, which may spur a business orientation (Brudney et al., 2005). Finally, the mayors' party affiliation dummy indicates whether they are members of a leftist (1) or a conservative (0) party. The hypothesis of a negative impact of reforms on enhancing transparency in corporatization was operationalized using three other dummies representing three local policy reforms introduced in NRW. These reforms were potentially directional in terms of formal restrictions and cultural expectations. In line with national and EU-wide standardizing tendencies, NRW adopted a mandate for accrual accounting at the municipal level in 2009. Corresponding

Table 2.2.: Overview of hypotheses, variables, and expected effects on cities' corporatization intensities. 'Plus' indicates an expected positive effect, whereas 'minus' indicates an expected negative effect.

Hypothesis	Variable	Expected effect	Level of corporatization
H1a	Short-term debt p.c.	+	esp. direct
	Business tax revenue p.c.	-	esp. direct
H1b	Long-term debt p.c.	+	esp. indirect
	Youth share	+	esp. indirect
H2	Education mayor	+	esp. direct
	Private sector experience mayor	+	esp. direct
H3	Party affiliation mayor	-	esp. direct
	Consolidated statement	-	esp. indirect
	Public Corporate Governance Code	-	esp. indirect
	Strengthening pact	-	esp. indirect

legislation required local governments to publish consolidated statements, which combined the financial reporting of all corporations with the government's core budget, from 2010 onward (NKFEF NRW, 2004). Despite this legal mandate, there has been compliance inertia in some NRW local governments⁶ since smaller municipalities with few qualified personnel eschewed the effort to prepare these statements (Eckstein, 2019). Almost simultaneously, some local governments established self-regulatory public corporate governance codes, similar to those adopted in other EU countries (Papenuß, 2012). The enactment of a strengthening pact from 2011 onwards provided extensive aid for over-indebted NRW cities, which in turn had to submit regular and transparency-enhancing evaluation reports (Holtkamp and Fuhrmann, 2014). The dummies took the value of 1 for years when the reform was in effect and 0 for preceding years.

Table 2.2 overviews our hypotheses, related variables, and the expected effects on cities' corporatization intensities. We controlled for city size with total personnel expenditures and current organizational instability with the limited contract share.⁷ Since we assume that the corporatization of public service is a complex procedure that takes time, one-year-lagged versions of all explanatory variables were used. This approach has the additional advantage of limiting the risks of reversed causality. To account for potential election cycle influences, we included a dichotomous variable for local gov-

ernment elections and a dummy that indicated whether the city council is dominated by a more leftist or conservative majority (Garmann, 2017).

2.4.3. Methodology

Our empirical analysis is based on two-way panel regression with the city- and time-fixed effects. We checked for multi-collinearity (O'Brien, 2007, Table A.2) and implemented Driscoll and Kraay (1998) standard errors since correcting cross-sectional correlation (De Hoyos and Sarafidis, 2006) was necessary following a Pesaran CD test indicating the existence of neighboring effects (Hoechle, 2007). Driscoll and Kraay's standard errors account for this.

The baseline regression model is:

$$Y_{it} = \alpha + \beta_b X_{itb} + \beta_c Q_{itc} + \eta_i + \rho_t + \varepsilon_{it} \quad (2.1)$$

The model describes the response of corporatization intensity Y of city i in year t to two sets of explanatory variables: B relevant model variables X_{itb} related to the hypotheses (Table 2.2) and C control variables in the vector Q_{itc} . The city fixed effects η_i account for the city's unobserved time-invariant characteristics, which may impact corporatization intensity. Such features include the general industrial composition, spatial proximity to the border or large cities, area, surface structure, or centralization of districts with the related size and cost of infrastructure. The year fixed effects ρ_t capture observed and unobserved macro-developments, such as common shocks affecting all cities simultaneously; for example, the 2008 financial crisis and the related strengthening of budget rules. ε_{it} is the unexplained residual. Accounting for fixed effects may push estimates closer to a causal interpretation; to avoid reverse temporal causality, all variables entered the regression function in first lags. The baseline estimation covers the entire period (1998–2017); as a robustness check, we re-estimate the model for a limited period (2008–2017).

2.5. Results

2.5.1. Descriptive analysis

Figure 2.2 displays the development of three average corporatization indices for 34 NRW cities from 1998 to 2017. All three indices include corporatized entities with cities holding at least 10%. Index 1 covers only direct ownership (blue line), index 2 adds first-tier subsidiaries (subsidiaries of directly-owned companies, red line), and index 3 captures the municipal group in its entirety (by adding all lower-tier subsidiaries to index 2, green line). The descriptive analysis reveals an ascending corporatization intensity in all three displayed subsidiary levels.⁸ The longitudinal increase in index 1 (+17,4%) was modest compared to index 2 (+34,7%) and index 3 (+47,8%): After an upturn from 1998 to 2004, the intensity remained relatively constant. As index 3 also includes those direct corporations of index 1, its increase can be traced to alterations in the highly branched sub-levels of indirectly-owned corporations. However, some nuances were observed. The overall increase slowed down in the years following the 2008 financial crisis. By 2010, the overall index dynamics returned to their pre-crisis pattern.

2.5.2. Regression analysis

In the second step, a two-way fixed-effects panel regression for four specifications differing in the dependent variable was implemented (Table 2.3). Models 1 and 2 analyze the potential drivers of the corporatization of directly-owned entities where the city holds more than 10% or at least 25%. Models 3 and 4 capture corporatization intensity within the entire municipal group, again differentiating between ownership levels of more than 10% and more than 25%. All explanatory variables entered the regression in their first lag.

For many variables, effect signs, significance levels, or both differ in terms of direct ownership as compared to the complete municipal group. For example, the point estimate of lagged long-term debt per capita is significant only for Models 1 and 2. That is, from 1999–2017, a higher level of long-term debt of 100 Euros per capita in the previous year's core budget is associated with a lower level of corporatization of directly-owned companies, represented by an index that is 0.052 points lower for an ownership level of

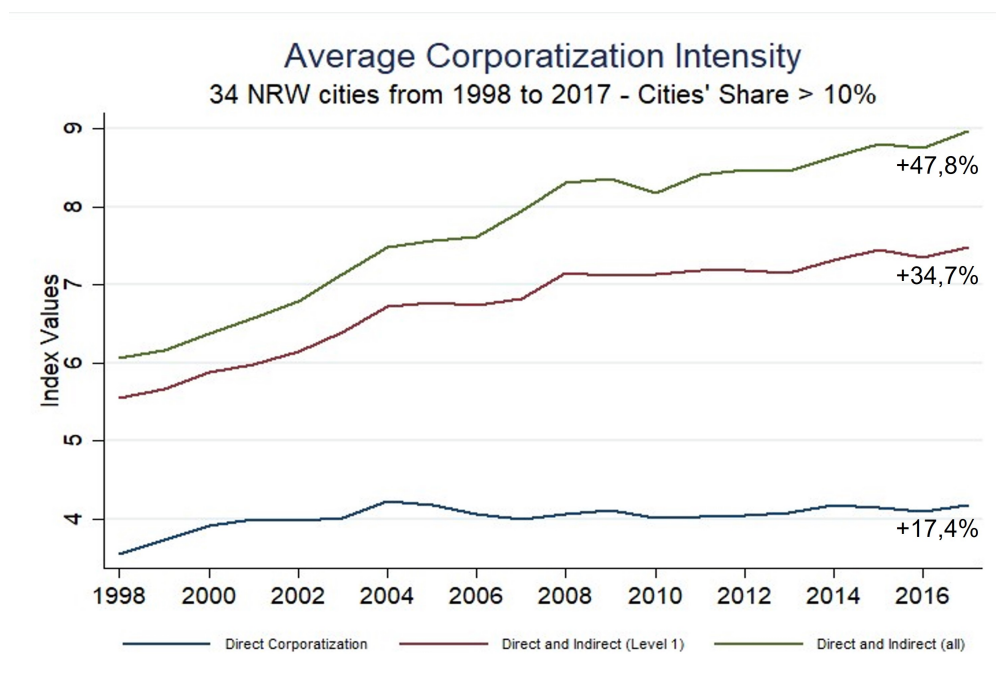


Figure 2.2.: Corporatization intensity on three different levels: Direct corporatization (government holds shares of the entity—bottom line), direct and indirect corporatization of tier one (government holds a share of an entity which holds shares of another entity—middle line), and direct and indirect corporatization on all tiers (entire multi-level corporatization structure—top line).

at least 10%, while not affecting corporatization intensity within the complete municipal group. A higher level of short-term debt per capita as an indicator of immediate fiscal crisis and a higher level of the youth share as an indicator of expenditure needs produce significant negative point estimates only for the entire municipal group. The coefficient of the consolidated statement dummy indicates that the implementation of the reform is significantly related to a lower level of corporatization intensity over the entire municipal group one year later. In contrast, no statistical significance is observed for directly-owned entities. The point estimates for implementing a public corporate governance code imply the opposite.

Additionally, the incumbent mayor's party produces ambiguous point estimates regarding the corporatization of directly- versus indirectly-owned entities. Although a switch from a conservative to a leftist mayor in year $t-1$ is related to a lower level of corporatization intensity regarding directly-owned entities in year t , it is also linked to significantly higher corporatization intensity at lower-tier subsidiary levels. The election of a mayor with a business-related education coincides with higher corporatization

Table 2.3.: Two way-FE Regression with Driscoll-Kraay's standard errors in parentheses
***p<0.01, **p<0.05, *p<0.1.

Direct Ownership		Complete Municipal Group			
		Model 1 (10%)	Model 2 (25%)	Model 3 (10%)	Model 4 (25%)
H1a	L.St.debt	-0.006 (0.011)	-0.004 (0.010)	-0.025* (0.013)	-0.024* (0.012)
	L.B.Tax.rev	-0.050*** (0.016)	-0.049*** (0.015)	-0.041 (0.027)	-0.048* (0.025)
H1b	L.Lt.debt	-0.052*** (0.012)	-0.050*** (0.012)	0.027 (0.019)	0.023 (0.017)
	L.Youth share	-0.038 (0.030)	-0.043 (0.032)	-0.111* (0.056)	-0.089 (0.060)
H2	L.Party mayor	-0.357** (0.135)	-0.359*** (0.117)	0.542*** (0.173)	0.522*** (0.171)
	L.Educ. mayor	0.190** (0.081)	0.237** (0.085)	-0.057 (0.246)	0.146 (0.231)
	L.Priv. sector exp. mayor	-0.420** (0.196)	-0.388* (0.191)	-0.542*** (0.182)	-0.470** (0.198)
H3	L.Cons. Statement	-0.192 (0.199)	-0.198 (0.200)	-0.494* (0.242)	-0.697** (0.249)
	L.Strength Pact	-0.365*** (0.125)	-0.346*** (0.115)	-0.808** (0.348)	-0.634* (0.310)
	L.Publ.Corp.Gov.Code	0.158 (0.173)	0.123 (0.164)	0.795** (0.352)	0.847** (0.356)
	L.Pers. exp.	-0.002** (0.001)	-0.002* (0.001)	-0.003* (0.002)	-0.002 (0.002)
	L.Election	0.046 (0.093)	0.045 (0.071)	0.101 (0.123)	0.111 (0.111)
	L.Party council	-0.108 (0.109)	-0.107 (0.123)	-1.046** (0.426)	-1.175** (0.463)
	L.Lim. contract	0.041*** (0.007)	0.035*** (0.006)	0.136*** (0.037)	0.132*** (0.033)
Time/City FE		YES	YES	YES	YES
Observations		646	646	646	646
Groups		34	34	34	34
R-square (within)		0.1546	0.1485	0.3819	0.3401

intensity among directly-owned companies one year later. Point estimates are consistent and significant for directly- and indirectly-owned entities for business tax revenue per capita (negative), the strengthening pact (negative), limited contract share (positive), personnel expenditures (negative), and the mayor's private-sector experience (negative).

To check for robustness, we re-estimated Models 1 to 4 (Table 2.3) for a limited period (2008–2017). The results differ slightly from the estimation for the entire period. The limited period only starts with the global financial crisis and covers the subsequent government debt crisis as well as the recovery period. From 2008–2017, all reforms enhancing transparency were implemented. The point estimates support the negative coefficient of lagged personnel expenditure related to directly-owned entities (Annex, Table A.2). They also support the coefficient of the youth share, the negative and significant estimate for the consolidated statement, the strengthening pact, and the mayor's characteristics.

All point estimates for long-term debt are insignificant from 2008 onward, whereas lagged short-term debt produces a significantly positive coefficient regarding the corporatization of directly-owned entities. Lagged council ideology has a positive/significant point estimate, whereas the negative/significant estimate on the complete municipal group remains stable. Additionally, election years play a significant role after 2008. Although re-estimation for the limited period produces different significance levels of certain potential drivers, no sign switches exist in the short versus long panel. Hence, the robustness check strengthens the results of our full-period estimations.

2.6. Discussion

Apart from temporal downturns, there has been a steady increase in corporatization since 1998. Gradus et al. (2014) observe a similar pattern for Dutch municipal refuse collection companies; we extend this discussion with the insight that the most significant dynamic occurred within the complex corporate governance structures of indirect ownership.

Major organizational turnover was revealed at the lower levels, making it increasingly costly to make centrally rigorous assessments of the need for legitimate change under accountability requirements. This pattern suggests extensive efforts to maneuver outside the bureaucratic corset without moving into full privatization. Apart from illustrating a country's ambivalent market attitude, this result may also exemplify an attempt to find an alternative and balanced strategy after amassing negative experiences with private

Table 2.4.: Summary of hypotheses, expected and estimated significant point estimates in all models. A sign is reported without parentheses if corresponding results are significant over the 10% and 25% ownership level, that is, either in Model 1 and 2 or Model 3, 4, 6, 7). and 4. A sign in parentheses refers to a point estimate which is only in one of the two ownership levels (i.e., Model 1 or 2, Model 3 or 4) significant. Signs are presented for the entire period (1998–2017) and for the limited period (2008–2017), which is to be understood as a robustness check.

Hypothesis	Variable	Expected sign	Point estimates direct ownership	Point estimates municipal group
H1a	St. debt	+	+	-
	B.tax	-	-	-
H1b	Lt. debt	+	-	-
	Youth share	+	-	-
H2	Educ. mayor	+	+	-
	Priv. sector exp. mayor	+	-	-
	Party mayor	-	-	+
H3	Cons. statement	-	-	-
	Publ. corp. gov. code	-	-	+
	Strength. pact	-	-	-

contractors that may have damaged legitimacy or caused a hole in the municipal coffers (e.g., Hefetz and Warner, 2004; Voorn et al., 2021). It also indicates ambidextrous motives for corporatization and, in search of its drivers, justifies taking the perspective of the extended TCF.

Table 2.4 summarizes our hypotheses as well as expected and estimated significant effects across all models. The results demonstrate that a deteriorating economic situation with a dip in public revenues is generally associated with higher levels of corporatization intensity. When the only way to keep up with payments is to take on short-term debts, cities seem to reach out to the closest corporatized entities and increase their corporatization (at least, since 2009) at the cost of corporatization across the municipal group. However, in times of higher levels of long-term debt, our results caution that cities tend to limit direct corporatization. In sum, this gives evidence that the fiscal situation drives municipal corporatization. Understanding business cycle-dependent business tax revenues and short-term debts as the most appropriate indicators of immediate fiscal stress, the findings confirm the assumption that cities use corporatization

as a rational tool for monetary cost reduction in times of fiscal stress (Andrews et al., 2020), especially among directly-owned entities, in line with the theoretical reasoning regarding economic TCF as an explanatory framework for production decisions.

In addition, there is some—although limited—support for the existing debt shift critique concerning political profiling (Herrmann, 2012). A higher level of long-term debt is associated with lower levels of corporatization among directly-owned entities but, simultaneously, a higher level of corporate activity in the entire municipal group. Although the latter result is insignificant, the coefficient signs at least hint at the potential transfer of long-term burdens from the core budget to deeper municipal group levels. As one of the most intensely discussed corporatization drivers, fiscal pressure behaves differently depending on the level of ownership, encouraging the pursuit of nuanced theorizing on corporatization. This may be the most relevant understanding as regards the ongoing scholarly discussion.

Expectations concerning the mayors' economic orientation are not confirmed, meaning there is no direct support for Hypothesis 1.2. This limited support may also be due to institutional restrictions (e.g. veto players). Once a leftist mayor replaces a more conservative predecessor, corporatization slows among directly-owned entities but picks up across the entire municipal group. This puzzling effect affirms the importance of including lower levels of subsidiaries in the analysis and may be explained by Tavares and Camões (2010), who consider corporatization a 'middle-ground' strategy. They show that in Portugal, left-wing local governments have opted for municipal corporations and not full privatization, considering the former's better fit with their ideological framework, thus still backing up the political TCF's aspect of higher-power incentives of re-election (Frant, 1996). From this standpoint, strategic expansion within lower-tier subsidiary levels—in the case of mixed ownership—may also aim to push back the powers of private partners in corporate operations. However, replacing a mayor without private sector experience with a mayor with such expertise is associated with lower levels of corporatization intensity.

Interestingly, business-related education has the opposite effect on directly-owned entities; while it seems to support a mayor's positive attitude toward out-of-house production (Noordegraaf et al., 2005), private sector experience does not. A potential ex-

planation is the incumbents' estimate of escalating transaction costs, for instance, due to changes in resource fit and concomitant shift in claims to legitimacy, as already indicated by their distancing themselves from the private sector by entering the public sector (Brudney et al., 2005).

Two of the transparency measures examined (consolidated statements and the strengthening pact and its reporting mechanisms) had a dampening effect in line with our third hypothesis. This result reinforces arguments for effective normative control in the form of a proliferating "audit society" (Wedlin and Sahlin, 2017). It also highlights previous attempts to evade unwanted insights into corporatized operations, potentially motivated by the shift of financial activities out of the core budget—a phenomenon to which our results only point cautiously but has been addressed by earlier publications (Herrmann, 2012). While this may be an effective means to directly relieve municipal coffers, it is unlikely to be premised on austere efficiency motives, which in turn underpins the relevance of alternative TCF explanations such as legislators seeking allocative efficiency favoring re-election. It also stimulates research to examine the interplay between shifting transparency and transaction costs in service provision more closely, for which public corporate governance codes, once adopted even more widely, offer a major empirical opportunity.

Should the illustrated upward trend in corporatization intensity persist and bring about a "field-level change" in European public administration (Voorn, 2021, p. 1) despite increased regulation, it can be assumed that corporatization will be established itself as a viable means more aligned with national standards of good governance. However, should the trend reverse as intensified evaluations become the norm, corporatization in its current form may prove unsuitable as a democratically legitimate mode of service provision. A deeper analysis is critical to determine whether the trend and its drivers can be attributed to specific business sectors, while others may experience unexpected ex-post economic or political transaction costs leading to inefficiencies, company closures, or disposal of shares.

Our findings seem generalizable to other states and countries, especially those where local governments enjoy sufficient freedom of self-governance. First, this is because corporatization is an international phenomenon that follows similar logic and spurs

similar discussions in Germany and beyond. Second, although many NRW cities have suffered from fiscal hardship in the past, similar fiscal patterns are also found in other countries. Third, neither the accrual accounting reform nor local government rescue programs demanding greater transparency are exclusive to NRW. Finally, the mayors' influence in corporatized entities is more restricted by the NRW local law than in other German states. Consequently, stronger impacts than those witnessed in NRW may exist elsewhere.

Limitations and future research avenues This study enriches previous research in several regards. However, some limitations should be acknowledged. The economic versus political efficiency/rationality dichotomy and its underlying simplified decision schemata should be treated with caution. Organizational actions may appear blatantly economically inefficient, but may well be utilitarian and rationally motivated. Moreover, consistent with Tolbert and Zucker (1983) two-stage model of innovation, it may be that economic efficiency motives drive the early initiators of corporatization; once the corporatized entity is institutionalized, shifts in its depth and intensity may well stem from legitimacy concerns or vice versa. In-depth process tracing of single cases could help clarify multi-layered decision patterns. Similarly, as with all theoretical constructs, the TCF's validity is not absolute. While the TCF premises public sector reform on an internally consistent sequence of (bounded) rational decisions yielding productive or allocative efficiency, others suggest it to be a not-so-straightforward process of sense-making (e.g., Lewis, 2000; Thornton et al., 2012). In other words, while this study represents a contribution to the formation of a more integrative theory, synergies need further elaboration and refinement to fit the corporatization puzzle.

Although our panel dataset comprises enough data points for a fully-fledged panel regression analysis of corporatization drivers, future research should expand to larger datasets with more cities and case settings. Additionally, while the proposed index has ample explanatory power for the phenomenon of corporatization, its decline does not ultimately imply reinternalization. This result may also be the consequence of externalizing services to other delivery modes.

Since the index is also based on shares, it does account for gradual shifts in formal autonomy. However, actual or perceived autonomy may vary (Krause and van Thiel, 2019; Stiel, 2022). Research could employ vignette studies to examine high-power incentives more profoundly. Furthermore, our index does not incorporate company size. It, therefore, neglects the fact that one big corporation may have a far more significant financial impact on the local government budget than numerous minor companies. The majority of investment reports did not contain the necessary raw data. However, such a weighting scheme may enhance the explanatory power of the index, especially concerning fiscal variables, and given an improved future data landscape, serves as a promising outlet for future research.

Regression models can potentially suffer from omitted variable bias; thus, corporatization intensity may be related to additional unobserved time-varying factors. For example, we recommend testing the effects of the city treasurer's characteristics along with those of the mayor. In fact, our findings illustrate that dualistic systems cannot be understood solely through the mayor's role. Future studies on corporatization that attempt to capture local decision-making must consider the city council as another key authority. To avoid oversimplification, it should be noted that the council's party majority only served as a control variable in our analysis. Other parameters, such as party coalitions and the degree of party fragmentation, may add value to the picture.

Additionally, prospective longitudinal analyses should compare federal states/countries with different reform trajectories and, since our index conflated all services, pay more attention to the kinds of functions delivered through corporations. TCF provides essential information about transaction attributes, such as asset specificity, complexity, and frequency (Williamson, 1996) or the level of trustworthiness (Dyer and Chu, 2003), that assist in decision-making for or against corporatization. TCF also predicts that asset specificity, performance measurability, or contracting problems vary by task dimension. While we have provided initial descriptive information on service types in the Annex A.2, research should engage with the TCF more deeply on these topics. Most importantly, however, future cross-case research should factor in deep structures of corporatization because dynamics may vary widely.

Additional data on contracting out or full privatization may be employed to connect the extent and motives of corporatization with alternate modes of out-of-house service provision. Such evidence may settle the debate on the 'publicness' of public services by providing an empirically reliable basis for decision-making.

The debate becomes relevant at times of crisis as state aid for ailing companies gains extra weight. The impact of the 2008 financial crisis on overall corporatization dynamics and more recent events related to COVID-19 or the turmoil in energy markets after the Russian invasion of Ukraine have revived the question of whether municipal companies are too vulnerable to (market) fluctuations and are as a result incapable of sharing essential responsibility for public service provision. Considering this nexus, does enhanced corporatization make cities prone to crises? What does this imply for the 'political mix of actions' when securing municipal liquidity to strengthen long-term resilience that feeds back into legitimacy? These are advanced questions worth exploring in future research.

2.7. Conclusion

This study illuminates discourse-determining drivers of the development of local government corporatization over 20 years, using a new dataset of 34 cities in Germany's largest state NRW. Panel data allow for constructing a longitudinal index that accounts for both intensity and depth of corporatization, providing a fine-grained measure of ownership. It thus contributes to a nuanced perspective on the corporatization debate, highlighting that over the past 15 years, more complex corporate structures, rather than directly-owned public companies, have driven corporatization. This approach offers meaningful insights into the pattern behind corporatization, demonstrating its ambidexterity of economic and political incentives and underscoring the value of applying the extended TCF. Counter-intuitively, the economic orientation of local political decision-makers was not found to be a straightforward predictor of corporatization. Loss of publicness induced transparency-enhancing reforms that, however, proved effective because their implementation is clearly associated with lower levels of corporatization intensity. Corporatization manifests as more than a rational auxiliary of austere cost reduction.

Local governments create and/or reform public service companies because normative forces appear to be at play; however, triggers vary depending on the level of corporatization. Theory explanations for corporatization should be differentiated accordingly. Considering this, future analyses should factor in subtle shifts in public ownership beyond the companies' mere creation or closure, since, as has become clear, incentives tend to alter with the decrease in formal discretion of core administration and the increase in operator autonomy. The fact that the gradual decoupling through intensified corporatization is accompanied by, in part, countervailing incentives to instrumentalize private law should prompt researchers to investigate further the delicate tension in which corporatizing local governments find themselves. This feature makes corporatization a unique research objective calling for increased scholarly attention, not least to examine the government's volatile role and positioning in service provision. Through the lens of instrumental rationality, the political TCF proves a valuable complement to the ubiquitous economic scholarship, while broader syntheses of theoretical strands may help further clarify corporatization in its complexity and ambiguity.

3. Fraught with tension? A machine-learning approach to termination traits of public corporations in English and German local governments

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3.1. Abstract

Corporatization has gained scholarly attention in recent years, yet little is known regarding why many corporations are eventually terminated, and what happens to their form and functions thereafter. Reinternalizing services is one option local governments may pursue. This paper focuses on the impact of tensions (systemic contradictions) on this final resolution reached: Do local governments choose or refuse reinternalization? Conducting machine learning, we predict termination outcomes based on an original dataset of 244 ceased English and German companies (2010–2020). The results show that macrosystemic tensions are more relevant for resourcing decisions and reinternalization is less likely to be caused by formal ownership issues.

Keywords: Corporatization, Organizational tensions, Machine learning, Local government, Cross-national

3.2. Introduction

When a decision to terminate a local government-owned company (LGC) is made there are two main questions: Why is the decision taken and what alternatives, such as privatization, dissolution, mergers, transfer, or reinternalization are sought? We will examine reinternalization, as the most radical movement toward in-house service provision, and will demonstrate how mediating variables (tensions) impact whether a terminated company's function is reinternalized or not. Local governments have long created and operated single- or multi-purpose companies, organized under private law through sole public or various combinations of public and private participation, to perform services ranging from urban-infrastructure planning and social-services provision to back-office functions. The eligibility and effectiveness of such corporatization—as a viable means for public-service provision—remains a subject of debate among scholars and practitioners today (Andrews et al., 2022; Bel et al., 2022; Voorn et al., 2017). Some regard corporatization as a promising avenue toward lean and innovative administration (C. Cooper et al., 2021; Tremml, 2021), while others have advocated a more democratic sense of public ownership (Berge and Torsteinsen, 2022; Pesch, 2008).

While enthusiasm prevails concerning this system's efficiency (Torsteinsen, 2019), international experience features indicators leading to company closures. Reasons for these reversals reported so far center around rampant policy fragmentation and opacity or loss of coordination (Bouckaert et al., 2016), closely related to poor performance and inefficiencies, concerns about democratic accountability or micropolitics and 'bureau-shaping' (Andrews et al., 2022; Camões and Rodrigues, 2021; Gradus et al., 2014; Lamothe et al., 2008; Schröter et al., 2019). However, most studies remain theoretical, and evidence is scant. Exceptions include Andrews (2022), Camões and Rodrigues (2021) and Gradus et al. (2014). Andrews (2022) examines the longitudinal effects of publicness on the dissolution of English local companies (2010–2016), underscoring the widely neglected relevance of control rights in empirical corporatization research. Camões and Rodrigues (2021) find that financial pressures took precedence over political ones in Portuguese municipalities' decision to dissolve their companies (1998–2012). Gradus and Budding (2020) show that left-wing political affiliation led Dutch

municipalities to switch to full in-house provision (1999–2014) and highlight the need to further investigate the impact of service characteristics on this process.

While these serve as valid explanations for company ‘breakups’, more research is required as our understanding of these urban governance reversal decisions remains incomplete (Andrews, 2022). The organizational survival literature reveals that instability in organizations can often be attributed to underlying tensions or so-called ‘systemic contradictions’ (Benson, 1977; Jarzabkowski et al., 2013). Such tensions arise, for instance, because actors must meet the conflicting demands of heterogeneous stakeholders and safeguard (political) legitimacy while maximizing cost efficiency (Camões and Rodrigues, 2021; Corbett and Howard, 2017; Leixnering et al., 2021; MacCarthaigh, 2014) and can—if not properly navigated—lead to the ‘death’ of organizations (Das and Teng, 2000). Tensions and their directional potential are well documented in the context of private sector inter-organizational relations (Vangen, 2017a). However, they have not yet been systematically linked to LGCs nor their closures, where accountability, legitimacy, and ownership issues or “ambiguities of control” (Aars and Ringkjøb, 2011, p. 843) can become prevalent (Andrews, 2022; Collin et al., 2009), with even less empirically grounded insights into subsequent control claims.

This is, however, important to consider, as different tensions may cause different kinds of termination outcomes with critical institutional implications, moving away from or closer to the public sector realm. Appreciating tensions is crucial for reflective management practice and can prevent undesired or premature termination (Das and Teng, 2000). Taking up this debate in the organizational literature for the corporatization context, we focus on reinternalization (of tasks or personnel), understood as the highest degree of public in-house provision and the least explored local reform. What impact do tensions inherent in LGCs have on whether a local government chooses or refuses to reinternalize formerly corporatized functions?

Reviewing the corporatization and organizational survival literature, we identify different types of tensions and develop an argument as to why tensions have an impact on the final typology of resolution reached when termination is considered. While (Camões and Rodrigues, 2021, p. 7) find that reverse corporatization is “the politics of bad times”⁹, we argue it is the politics of tense times. We test this using machine

learning (ML) on 244 LGCs in Germany and England that ceased operations between 2010 and 2020. Private law public companies were selected as the most prevalent and understudied form of public-service provision outside core administration in both target countries (e.g., for Germany: Rackwitz and Raffer, work in progress); (e.g., for England: Andrews et al., 2020). Additionally, tensions will likely manifest more drastically in environments where public and private logics collide.

By termination, we refer to the specific point in time when a company is deleted from the commercial register or liquidation is initiated. This is done for analytical clarity in the effort to address the widely-voiced challenge of determining termination (Adam et al., 2007; J. Freeman et al., 1983). Data were collected through automated matching across different databases, supplemented by documentary analysis and telephone inquiries with local officials. Concentrating on England and Germany primarily served to ensure variance in data to assess the universality of claims and test them across conditions, but also afforded visualization of the level of variation in termination traits across countries with widely different reform trajectories and notions of market and state.

This work contributes to the research in four main ways. First, it provides insights into the termination dynamics of municipal corporatization and offers an empirically grounded classification of ‘breakup’ variants.

Second, it explores the directional potential of ‘systemic contradictions’ or tensions (Benson, 1977; Jarzabkowski et al., 2013) that public corporations can experience affecting a local government’s resourcing decision. In doing so, we ‘borrow’ prominent arguments from the literature on private sector firms and examine whether they hold when applied to public organizing in the private law domain.

Third, it illuminates the largely untapped methodological potential of ML (specifically, random forest) for understanding organizational reform dynamics in local contexts. From this, we suggest a pattern linking institutional tensions to responses, thereby adding to future research on the causal mechanisms underlying organizational mortality.

Finally, the claims are grounded in an international perspective, thereby addressing a gap in systematic cross-national evidence on organizational mortality and restructuring (Adam et al., 2007; Lægreid and Verhoest, 2010) and corporatization research (Andrews

et al., 2020). Including two Western cultures supplements the predominant focus of comparative tension studies on Eastern versus Western cultures (cf. Keller et al., 2017).

The remainder of the paper is structured as follows. Section 3.3 provides the theoretical background, noting that predictors of organizational mortality often originate from some latent or salient tension that may destabilize organizations over time, eventually leading to termination. To account for the unique composition of LGCs, we focus on factors ubiquitous in the organizational survival literature and complement factors frequently discussed in the corporatization literature around service characteristics and ownership, also addressing calls by Andrews (2022) and Camões and Rodrigues (2021). We then develop an argument for why high tensions make local governments more likely to opt for reinternalization. In Section 3.4, we will outline our methodological approach; in Section 3.5, we present our results and in Section 3.6, discuss them. In Section 3.7, we conclude.

3.3. Theoretical background

3.3.1. A tension lens on public-company terminations

Tension refers to elements of an organization that appear logical in isolation but oppositional in conjunction (Lewis, 2000; W. K. Smith and Lewis, 2011). The context of multi-actor arrangements is inherently tense (Ashforth and Reingen, 2014; Ospina and Saz-Carranza, 2010; Provan and Kenis, 2008; Vangen, 2017b). Corporatized private law entities are a classic example characterized by a pluralistic logic (Jay, 2013; Ospina and Foldy, 2015; Skelcher and S. R. Smith, 2015) and, thus, “persistent contradictions between interdependent elements” (Schad et al., 2016, p. 6). This can result in competing demands, such as hierarchy versus heterarchy, short- versus long-term goal setting, control versus autonomy, innovation versus replication, and rigidity versus flexibility (Leixnering et al., 2021; Schad et al., 2016; Raza-Ullah et al., 2014), and “failure can derive from not getting the balance correct” (Torsteinsen, 2019, p. 5). Corroborating this, Das and Teng (2000) and Park and Ungson (1997) show that rivalry between forces was a key indicator of alliance dissolution.

In a similar vein, Cui et al. (2011) reported goal incongruence among partners as the main predictor of their demise. High tensions, therefore, imply a pronounced dysbalance between logic (Das and Teng, 2000). Tensions are not per se negative to organizational survival and can create generative forces (Cloutier and Langley, 2017; Gulati and Puranam, 2009; Jarzabkowski and Lê, 2017). However, as Skelcher and S. R. Smith (2015) reiterate, if not properly navigated, dysfunction occurs, increasing the desire of those involved to block one logic and sync again (Xiao et al., 2019; Zimbardo and Leippe, 1991).

Premised on this understanding, this paper identifies and traces a collection of tension-proxying factors from the literature on private and public organizations, to determine how far these factors are characteristic of reinternalization in the context of company termination.

A company's national context toward market and state The first tension concerns diverging starting points for different national public sectors and collective notions of market and state that may conflict with the idea of rampant private law. Diverging starting points develop based on historical backgrounds, state structures and legacies, administrative traditions, and reform trajectories (C. Pollitt and Bouckaert, 2017). While public companies in a nation do not necessarily share the same paradigm, national culture can inform “habitual ways” (Vangen, 2017b, p. 306) and how they address organizational challenges (Dyson, 1980; Yesilkagit and J. G. Christensen, 2010). Schrage and Rasche (2022) demonstrate that Chinese and German businesses handled tensions differently when confronted with the same paradox. Schröter (2019, p. 200) points to the British “entrepreneurial” mindset that affects how actors understand, justify, and legitimate local reform strategies. Following this logic, public companies in countries that have traditionally taken a relatively market-oriented stance can be expected to face lesser tensions when operating under private law, making termination less likely than in countries where the private sector is viewed with skepticism.

A company's lifespan Population ecologists highlight the relevance of age and size for organizational survival (cf. Abatecola et al., 2012; J. Freeman et al., 1983). Both these factors harbor fundamental tensions that may inform companies' breakdown

types. Young companies strive to legitimize and position themselves in their fields by adhering to their normative contexts (Scherer et al., 2013; W. K. Smith and Lewis, 2011; Sullivan et al., 2013). This ‘liability of newness’ requires great capacity to build structures that can withstand legitimacy scrutiny (Singh et al., 1986; Stinchcombe, 1965). Alajoutsijaervi et al. (2015) and Sonpar et al. (2010) demonstrate that the new-borns’ low reputational capital and less-established accountability structures make them more vulnerable to the formative influence of ambiguous logic and thus more prone to termination.

A company’s size While most empirical studies support that size plays a decisive role in an organization’s survival (Y. Li et al., 2020), more recent research evinces small or no effects (Corbett and Howard, 2017; Kuipers et al., 2018). The rationale here is closely related to a company’s lifespan: Larger companies may be more stable profiting from well-established structures and cost benefits, but they can be entrenched and cumbersome. Their smaller counterparts may be more adaptive to volatile environments but torn between multiple demands. This ‘liability of smallness’ makes them more prone to termination (Aldrich and Auster, 1986; Boin et al., 2010).

A company’s service type Closely related is the tension inherent in certain service types. Lamothe et al. (2008, p. 31) find that if the delivery mode and service type are a “mismatch”, termination is the most likely outcome, suggesting a potential underlying tension that prompts reconsideration of the service delivery decision. For LGCs, this can be explained by tenants of transaction cost theory, according to which companies with low commerciality or ambiguities regarding service quality and quantity, such as those with social or administrative functions are more likely to encounter a systemic conflict of demands when operating in private law environments (Brown and Potoski, 2003). Andrews (2022) argues that companies providing human services, such as social housing or benefits, may face a broader range of competing accountability tensions, meandering between profit maximization and best value outcome, subjecting them to greater termination risk.

A company's number of owners Tensions are also likely to rise with increasing shareholder numbers, which is closely related to size. Although wide-scale inclusion can fertilize corporate dynamics by pooling diverse knowledge, resources, and competencies (Cappellaro et al., 2020), it can also foster increased demand for coordination and control (Henry et al., 2022; Vangen, 2017b). As Elston et al. (forthcoming) set out, the number of veto players and the potential heterogeneity of their preferences grows, causing increases in debating, bargaining, and decision time and reductions in flexibility, resulting in tensions and potentially, a breakdown.

A company's ownership distribution Additionally, distribution of ownership and, thus, the level of “power over [own gain]” (Huxham and Vangen, 2005, p. 175) becomes critical to how companies evolve. The rationale here is that asymmetrical control by one partner constrains the other's decision-making authority and ability to achieve personal or organizational goals (Purdy, 2012). Therefore, a partner may seek to compensate for control and influence deficits through opportunistic behavior, again undermining the stronger partner's discretion and overall synergy (Makhija and Ganesh, 1997). By contrast, more evenly distributed modes can provide mutual cost-sharing benefits and encourage strategic exchange, which alleviates tensions and as Kwon et al. (2009) and Talay and Akdeniz (2009) show, averts termination.

A company's public ownership In turn, if the private sector's share is disproportionate to the public sector's share, tensions between logic or actors' commitment can be exacerbated, impacting the collaborative agenda (Andrews et al., 2015; Huxham and Vangen, 2005). Da Cruz and Marques (2012, p. 5) find evidence for high degrees of cognitive dissonance in mixed companies, which is “accentuated in ownership dispersion” that favored the private shareholder's commerciality over public interest—circumstances prone to tension. Similarly, Battilana and Dorado (2010) and Tracey et al. (2011) demonstrate that partners torn between market and social-mission logics perish when they prioritize one over the other.

These tensions may be mutually constitutive and recursive and, thus, coexisting and coevolving (Jarzabkowski et al., 2013; Lüscher and Lewis, 2008). For example, low-age, mixed-owned companies with public and private shares may encounter greater ten-

sions than older companies with full public ownership, as the former must withstand simultaneous legitimacy tests from competing normative contexts.

The following section now moves away from the predictor variables ‘tensions’ to the response variable ‘termination outcome’ to develop an argument for why high tensions lead local governments to choose reinternalization.

3.3.2. Organizational mortality and termination outcomes

While studies on organizational survival are manifold, significantly fewer have considered the final stage of organizations’ existence (MacCarthaigh, 2014; Zeemering, 2008). Moreover, the few existing empirical studies on organizational mortality have regarded termination as a binary feature, neglecting to consider subtle differences in termination outcomes. The literature disagrees on when, or if, organizational ‘death’ can occur (Askim et al., 2020; Kaufman, 1976). Broadly speaking, an organization may persist in various configurations after a company’s official breakdown. Das and Teng (2000) frame firm strategic alliances’ termination options as either merger/acquisitions or dissolutions. Hannan and J. Freeman (1981) identify four generic kinds of mortality, disbanding, absorption, merger, and radical change of form, while Adam et al. (2007, p. 233) note that “a detailed description of how the changes were observed and classified” is not provided. MacCarthaigh (2014) echoes this in the context of public sector organizations by distinguishing between death, absorption, merger and replacement. Transferred to the local government corporatization context, these frameworks do not provide a useful concept for reinternalization.

Thus, we adapt the distinction to identify characteristic organizational features, or packages of features, associated with particular types of LGC termination that we derived from the dataset. These types can be placed on a continuum ranging from municipal externalization to partial and complete internalization (Lamothe et al., 2008), starting with privatization moving through a merger with another company and transfer to another semi-autonomous legal form or public law company, and ending with this study’s focus: reinternalization as the most internalized mode of public service delivery (Figure 3.1, ‘Full dissolution’ is not included in Figure 3.1, as the definitive discon-

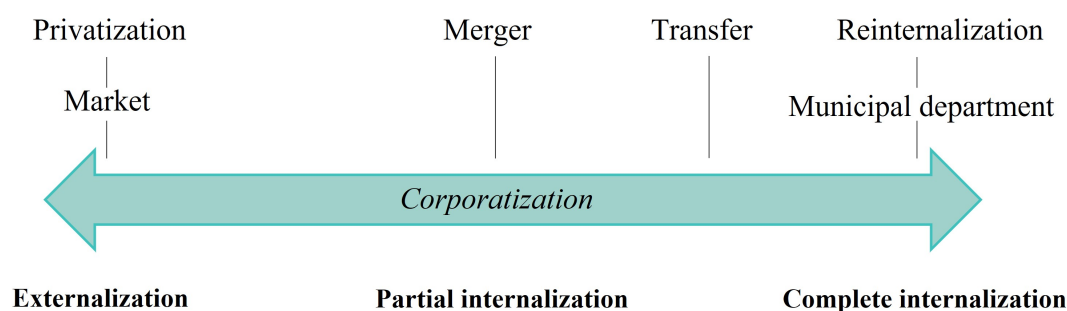


Figure 3.1.: Range of follow-up governance structures for terminated public-service companies derived from the dataset and informed by Hannan and J. Freeman (1989), Lamothe et al. (2008), and MacCarthaigh (2014).

tinuation of a company with all its constituents means no “post functional lineage”, MacCarthaigh, 2014, 1027, remains).

Reinternalization is pursued for multiple reasons. This can be for a lack of delivery alternatives but is often attributed to public control claims (Lamothe et al., 2008) and, as we argue, the need for synchronization. Switching to complete internalization is said to have the potential to streamline service provision due to decompartmentalization and defragmentation (Fiss and Zajac, 2004). While it does not necessarily reduce costs, it allows local governments to use internal control mechanisms consistent with their premises (Williamson, 1981). Finding evidence on reinternalization’s efficiency and effectiveness is beyond this research, but this line of reasoning helps to set forth our argument. We hypothesize that reinternalization becomes a viable option for a local government that is assumed to interpret and filter events through the public sector environment’s deeply ingrained norms and values (T. Christensen et al., 2020). When rationally or irrationally motivated, it sees its logic threatened by high tensions in its corporations, which leads us to our hypothesis:

Hypothesis 2: When tensions are high in LGCs, the local government will opt for reinternalization when deciding to terminate.

3.4. Data and method

To scrutinize this hypothesis, we look at the formerly corporatized local government entity as the unit of analysis. We have analyzed 86 English and 158 German over 10 years,

which provides us with important information to analyze longitudinal change. First, terminated companies were identified by automated matching of different databases in R, which allowed the accuracy of the data to be confirmed/double-checked and missing information in one database to be filled from by the other: purchased statistical offices' for Germany, Bureau Van Dijk (2022) Fame for England, and manually collected and North Data (2022) for both countries. Subsequently, the final dataset was cleaned for companies for which some variables relevant for robust hypothesis testing could not be identified.

3.4.1. Case setting

To increase the results' validity and reliability, we aimed to ensure that the sample had sufficient diversity regarding the companies' national starting points and reform trajectory during the selection of cases' national context. Therefore, this study follows a 'most different system design' (MDS) (Przeworski and Teune, 1970), choosing companies embedded in countries with different institutional contexts, administrative traditions, and swings of the pendulum: England and Germany.

Although standardization pressures at the EU (cf. single market rules) and national levels, and recent local government reforms affecting the two countries, have somewhat eroded their diversity (Cumbers and Becker, 2018; Rosell and Saz-Carranza, 2020; Wollmann and Marcou, 2010), fundamental differences remain. England is chiefly associated with the Anglo-Saxon¹⁰ model of public interest culture, pragmatism, and a tendency toward more radical reform compared to the Weberian Rechtsstaat model, based on legality, probity and predictability of outcomes, characteristic of Germany (Andresani and Ferlie, 2006; C. Pollitt and Bouckaert, 2017).

As such, Germany has been classified as a late and incoherent adopter of reform, producing its own coordinated, "variegated form of neoliberalism" (Cumbers and Becker, 2018; John, 2000, p. 6), whereas England is considered a market-oriented pioneer (C. Cooper et al., 2021), such that social dialogue with the private sector domain is not as broadly accepted in Germany as in England (Schröter, 2019). While Germany is a federal state nested within dense multi-scalar governance with a tradition of strong local self-government, England has a comparatively highly centralized political-

administrative system in which national government interventions directly impact local public-management strategy, limiting local agency and capacity (Bulkeley and Kern, 2006; Wollmann and Marcou, 2010). In both countries, arm's length companies have long been viable vehicles for local service provision. Over the last decade (2010–16), in both countries, the number of LGCs has risen: in England's major local governments by about 23% (Andrews et al., 2020), and in Germany by about 12%¹¹ (German Federal Statistical Office, 2021); however, we have little insight into their termination dynamics. Instead, debates about 'reclaiming public services' (Kishimoto et al., 2017) have recently centered on remunicipalization, that is, restoring formerly privatized services to local government ownership, mostly after amassing negative experiences with private contractors (Becker et al., 2015; Warner, 2008). This strategic reversal may explain the rare incidence of privatization in the data as a form of local governance ex-post corporatization. However, while evidence suggests a move away from privatization into public ownership, we know little about whether this fuels corporatization or involves complete internalization (Albalade et al., 2022; Voorn et al., 2021). Some reports speak of an 'insourcing revolution' (APSE, 2019; Labour, 2020), while German reference to this issue is effectively non-existent. Thus, while this study aimed to apply and test a theoretical framework through ML using a highly versatile dataset, entering *country* into the model further adds to the debate by determining whether national differences mirrored in state structure and administrative reform paths proxying tensions uniquely impact reinternalization decisions.

3.4.2. Data collection

English data The initial data for the English set was made available by a research team from the Universities of Birmingham, Cardiff, and Durham (Andrews et al., 2020; Andrews, 2022; Ferran and Puey, 2016). These primary data included all companies at least partly owned by single- or upper-tier local authorities in England from 2009 to 2017. Single-tier local authorities operate mostly in urban areas, while upper-tier local authorities operate in the two-tier local government system that covers rural areas. The team scrutinized each authority's annual statements of account to identify companies that local authorities controlled or had an interest in, which revealed almost

700 separate local-authority companies. To construct a company-level dataset, each entity's registered company number was searched via Bureau Van Dijk's Fame financial database—providing major British company information (Bureau Van Dijk, 2022). Then, the registered numbers were imported into the Fame database to extract the company information needed for analysis. This revealed that some companies did not have complete accounting data. After this data cleaning, three legal formats with private law elements were represented in the sample that formed the basis for this study's dataset: companies limited by shares, companies limited by guarantee, and liability limited partnerships.

German data Annual data on all German municipally-owned companies for 2009–2020 were purchased from the Federal National Statistical Office. As these data only provided company names, states, and service types, additional desk research on archival data from council websites, primarily annual accounts, formal requests for information, and news articles, was needed to determine their legal status and whether entities' disappearance indicated the end of a project, either due to early termination or conclusion, or that they had been renamed/merged. Information on companies with the legal form of a limited liability company (*Gesellschaft mit beschränkter Haftung*) was collected, as this is the most prevalent German form under private law.

Final dataset To obtain additional information regarding termination types and make the data more robust, the cross-country dataset was matched with North Data (2022)'s database. North Data's online search engine offers a freely accessible compilation of European companies by linking various business registers to provide a range of company information such as profit or sale figures. Additional missing variables were collected manually via archival data from council websites, primarily annual accounts; formal requests for information; news articles; and 25 telephone calls to inquire information from local officials. For the German context, this approach to gathering information on local corporatization is more reliable than those applied in previous studies, which relied on surveys with relatively low response rates or voluntarily filled databases. For the English context, this cross-linkage helped identify English companies within the set terminated from 2017 to 2020. Therefore, the English 2017–2020 data in this analy-

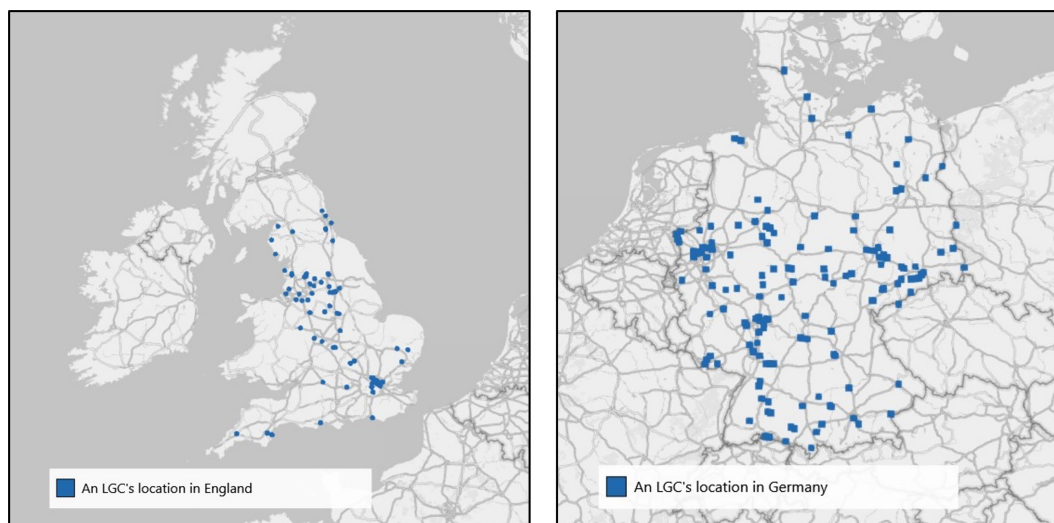


Figure 3.2.: The sample's location in England and Germany.

sis refer only to companies that were terminated after 2017, not those that were founded and terminated from 2017 to 2020. This resulted in a final dataset of 86 English and 158 German LGCs. Their large spatial dispersion in each country additionally controls for possible effects of local institutional homogeneity and ensures data variance within and across countries (see Figure 3.2 for the sample's location in England and Germany).

Predictor variables (features) The seven outlined tension-proxying factors potentially relevant to company mortality were operationalized as follows (Table 3.1 for the definitions and descriptive characteristics of these predicting [tensions] and responding variables [outcomes]) Tensions related to a company's national context, lifespan, and size were measured using the corporate variables country, lifespan, and size. The categorical variable country, used to account for national cultural and political tradition, took DE and EN for companies registered in Germany and England, respectively. Company lifespan reflected the number of years between the dates of formal incorporation and official liquidation (as recorded in the national commercial registers). The start of liquidation, rather than the deletion of the company, was chosen to exclude the less-representative, atypical phase of liquidation (selling assets, paying creditors, etc.).

Several options for operationalizing a company's size are proposed in the literature. We opted for the most accessible—but no less informative—approach. For England, using the Cardiff team's dataset, company size was measured through a dichotomous variable

Table 3.1.: Definitions and descriptive characteristics of variables used in this study.

Variable	Definition	Obs.	Freq. (%)	Mean	SD	Min	Max
Response variable							
Termination outcome	A categorical variable taking reinternalization for reinternalized companies and noreinternalization for all other types of termination.	244.0	100.0				
No reinternalization		171.0	70.1				
Reinternalization		73.0	29.9				
Predictors							
Country	A categorical variable taking DE for Germany and EN for England.	244.0	100.0				
DE		158.0	64.8				
EN		86.0	35.3				
Lifespan	A continuous variable counting the number of years between the dates of formal incorporation and official liquidation.	244.0		14.5	7.8	2.0	46.6
Size	A dichotomous variable indicating whether the company belongs to the top quartile of the sample.	244.0				0.0	1.0
Service	A categorical variable covering eight service types.	244.0	100.0				
Development		107.0	43.9				
Administration		27.0	11.1				
Leisure		25.0	10.3				
Environment		23.0	9.4				
Social care		21.0	8.6				
Housing		17.0	7.0				
Transport		13.0	5.3				
Education		11.0	4.5				
Number of owners	A continuous variable counting the company's shareholders	244.0		2.6	7.7	1.0	112.0
Public ownership	A continuous variable taking the percentage of company shares held by public organizations compared to private shares.	244.0		86.6	23.2	14.3	100.0
Ownership distribution	A continuous variable based on the Gini coefficient illustrating the distribution of (corporate) ownership among companies' shareholders.	244.0		0.1	0.2	0.0	1.0

coded ‘1’ for companies from the top quartile of the sample regarding sales (according to the Fame database), and ‘0’ otherwise. This accounted for missing accounting information for the smallest companies in which municipalities have a stake and the non-normal distribution of turnover figures for companies with complete information (cf. Andrews et al., 2020). Similarly, for Germany, size was captured by entering ‘1’ if the arithmetic mean of a company’s balance sheet for the three years prior to liquidation fell within the top quartile of the sample, and ‘0’ otherwise. The three-year period was chosen to allow sufficient dispersion and indicate the potential well-being of the companies before their demise. Another categorical variable was used for service, covering eight public service types: administration, development, education, environment (including energy and water), housing, leisure, social care, and transport (Andrews, 2022).

For number of owners, a continuous variable was used that counted companies’ partners. Public ownership was represented by the percentage of company shares held by public organizations compared to private shares. Finally, one distributional measure, the normed Gini coefficient, illustrated the distribution of (corporate) ownership among shareholders:

$$G^* = \frac{n}{n-1} \left(1 - \sum_{i=1}^n h_i (Q_i + Q_{i-1}) \right) \quad (3.1)$$

where G^* is the corrected Gini coefficient, n is the number of samples, h_i is the relative share, and Q_i is the cumulated relative characteristics. The Gini coefficient is normed as a number between 0 and 1, where 1 represents absolute unequal distribution (one person owns everything, all others nothing), and 0 represents absolute equal distribution (all persons own the same assets).

Response variables (classes) The response variable termination outcome comprised two classes, respectively representing local government governments’ responses to tensions: reinternalization into the core administration (*reinternalization*) and no reinternalization (*noreinternalization*). For analytical clarity and model accuracy, all other sub-classes derived from the initial categorization of the information gathered on each company were subsumed under noreinternalization and, through this, the possible consequences of company cessation that did not involve reinternalization were summarized;

that is, complete dissolution, formal privatization, merger with another company of the same legal form, or transfer to an alternative jurisdiction. These classes were not always mutually exclusive; in some cases, parts of a company were, for example, reinternalized while smaller parts were merged with other companies. In such cases, only the predominant category (*reinternalization*) was selected to represent the service's future delivery method.

3.4.3. Random forests

With our two pre-set groups of termination outcomes, a decision-tree-based approach for classification was applied (e.g., Breiman et al., 2017). Decision-tree methods are supervised ML algorithms that have advantages over traditional linear regression, as they can map non-linear relationships in complex datasets. Moreover, they apply to a combination of categorical and numerical data. While this method has been well-established in various fields (see, e.g., Grimmer et al., 2021; Reades et al., 2019; C. Yin et al., 2020), its potential for organization and public administration studies has only recently been recognized (Anastasopoulos and Whitford, 2019).

The random-forests approach, useful for relatively small datasets, is applied, as it leverages the power of multiple decision trees to predict a final aggregated output. The random selection makes the method robust against overfitting. To prepare for the computational process in the R environment ('randomForest' package, Liaw and Wiener, 2002), a command was established that shuffled the data to ensure each termination outcome was represented in each sample.

A critical component of most ML approaches is splitting the data for training and testing purposes. Following the most common recommendation, 70% was used for training and 30% for testing (Breiman et al., 2017). To manage the class imbalance of the dataset (reinternalization: 29.9%, no reinternalization: 70.1%; see Table 3.1), a synthetic minority up-sampling technique was deployed. To tune the resulting model to its best possible accuracy, loops were installed to determine the ideal hyperparameter. The hyperparameter *ntree* (number of trees grown) was systematically tested with values of 10–500, with no observed effect on training and test accuracy; consequently, it was

Table 3.2.: Relative importance of independent variables for predicting termination outcomes.

Predictors	Relative importance (%)	Rank
Country	31.01	3
Lifespan	51.69	2
Size	21.97	7
Service	58.26	1
Number of owners	26.56	5
Public ownership	26.42	6
Ownership distribution	26.6	4

set to 500. The parameter *mtry* (number of variables randomly sampled as candidates at each split) was automatically optimized for *ntree*=500 (Liaw and Wiener, 2002).

Through this recursive partitioning, it was possible to classify observations (predictors) and predict qualitative outcomes (responses), yielding an accuracy of 0.98 for the training set and 0.77 for the testing regarding the per cent of correct predictions (further explanation of the technicalities can be found in the Annex, Figure A.3).

3.5. Results

3.5.1. Relative importance

First, the individual predictors' relative importance for predicting whether a local government will, in the event of company termination, respond by returning the company's function to core administration were considered (see Table 3.2). This showed that service type (58%), lifespan (52%), and country (31%) were the largest contributors to the model. Number of owners (27%), share of public ownership (26%), and ownership distribution (27%) were less relevant, with size (22%) having the smallest influence overall.

3.5.2. Partial dependence

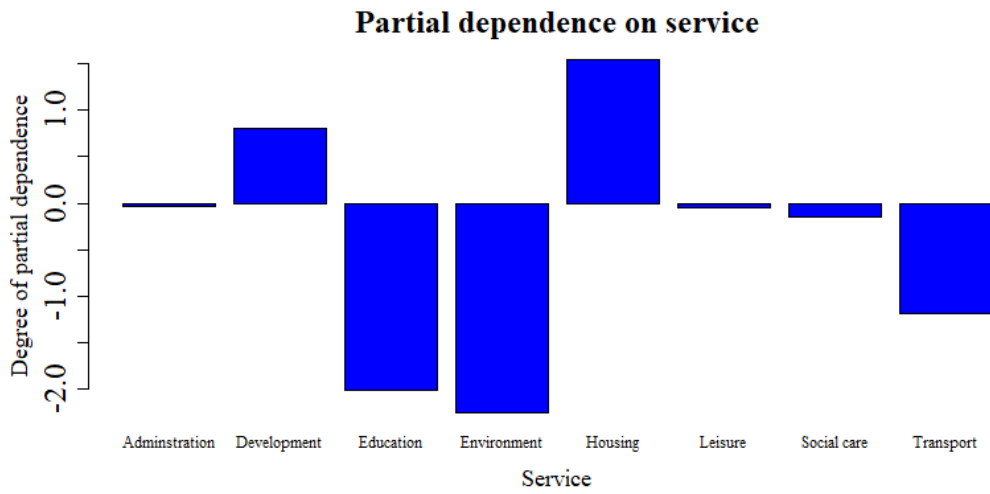
Figures 3.3a-3.3g illustrate the dependence between the target response and the set of input features, marginalizing the values of all other input features (Liaw and Wiener, 2002). For each feature, starting with the most relevant, negative values (on the y-axis) indicated that the positive class (*reinternalization*) was less likely for that value

of the independent variable (on the x-axis). Similarly, positive values (on the y-axis) indicated that the positive class (*reinternalization*) was more likely for the given value of the independent variable (on the x-axis). Zero implied no average impact on class probability.

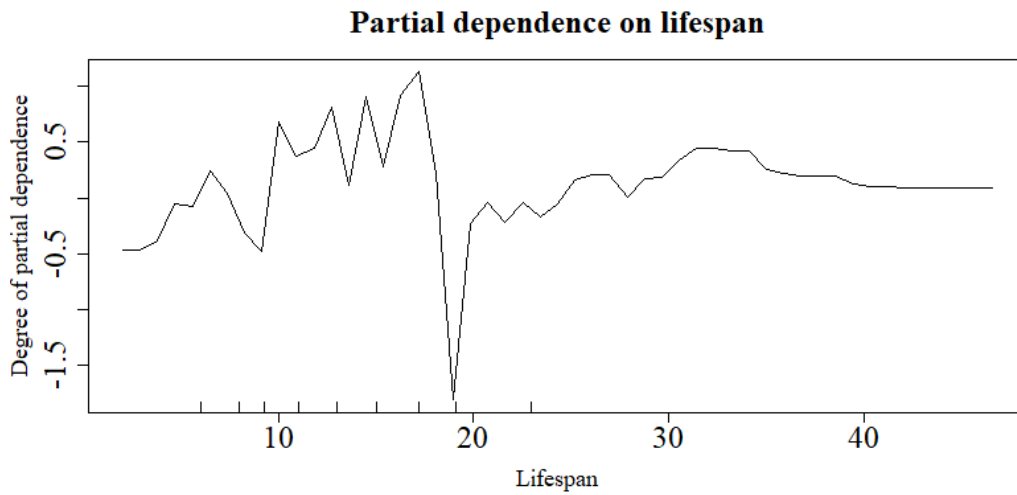
Country characteristics also differed substantially: In Germany, a ceased company's function or form was comparatively rarely reinternalized; in England, reinternalization was highly probable (Figure 3.3a). Regarding company lifespan, a partially steady increase in the probability of reinternalization was observed, which implies that the older the company, the more likely it is to reinternalize. However, there are clear variations, with a very low probability of reinternalization in the first 10–15 years of a company's existence, a very high one in years 15–20, and a marked increase from there after a company turns 30 years old (Figure 3.3b). While company size has a comparatively small influence on local governments' response and, consequently, both large and small companies are likely to be brought in-house, very large companies tend to be restored to full control of the core administration (Figure 3.3c).

Although service type played the largest role in the decision for/against reinternalization, the partial-dependence plot shows a more nuanced situation. Social housing seems to be preferentially absorbed into the full control of the core administration, but this is not the case for other social services; education and, as expected, the environment and transport sectors, have the highest likelihood of an alternative form of restructuring. Additionally, reinternalization seems the most likely choice for development (Figure 3.3d). For companies with more than one owner, the probability of reinternalization fell drastically and remained consistently low when the number of shareholders exceeded 12 (Figure 3.3e).

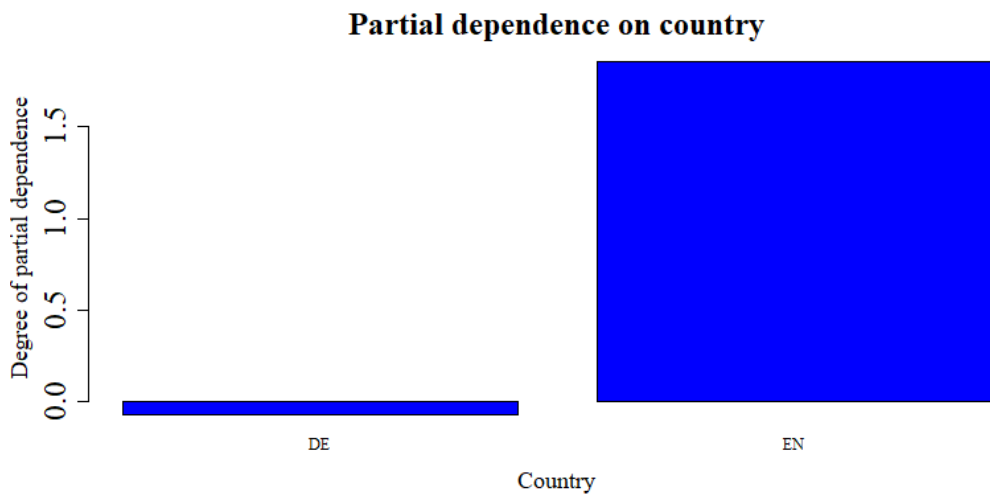
The results for public ownership and ownership distribution were more ambiguous. Regarding share of public ownership, an overall linear relationship between the two benchmarks was observable. Interestingly, two peaks can be identified, indicating that companies with a public share of 50% and those wholly owned by the local government are most likely to be reinternalized (Figure 3f). Companies with fully balanced ownership were most likely to be reverted; all others were restructured elsewhere or fully dissolved, with the probability slightly increasing at a Gini-value of >0.4 (Figure 3.3g).



(a) The partial dependence on service.

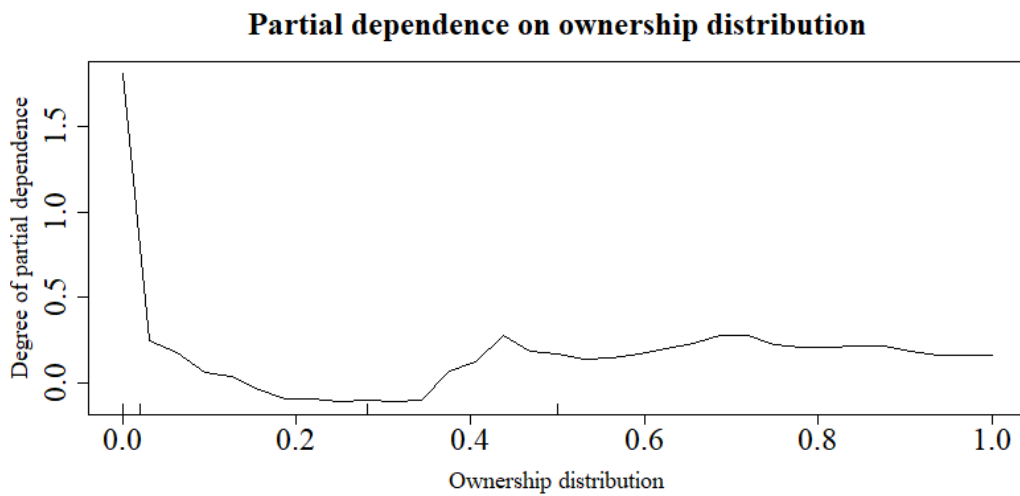


(b) The partial dependence on lifespan.

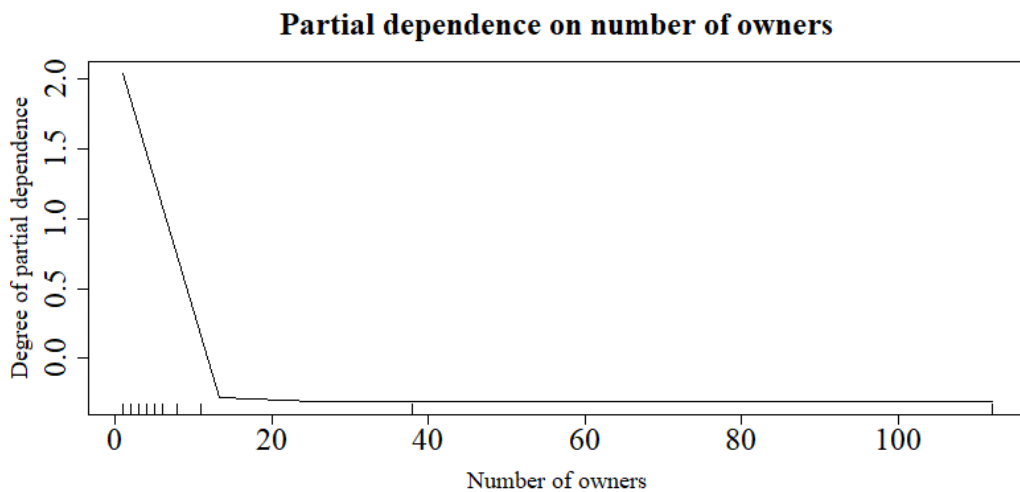


(c) The partial dependence on country.

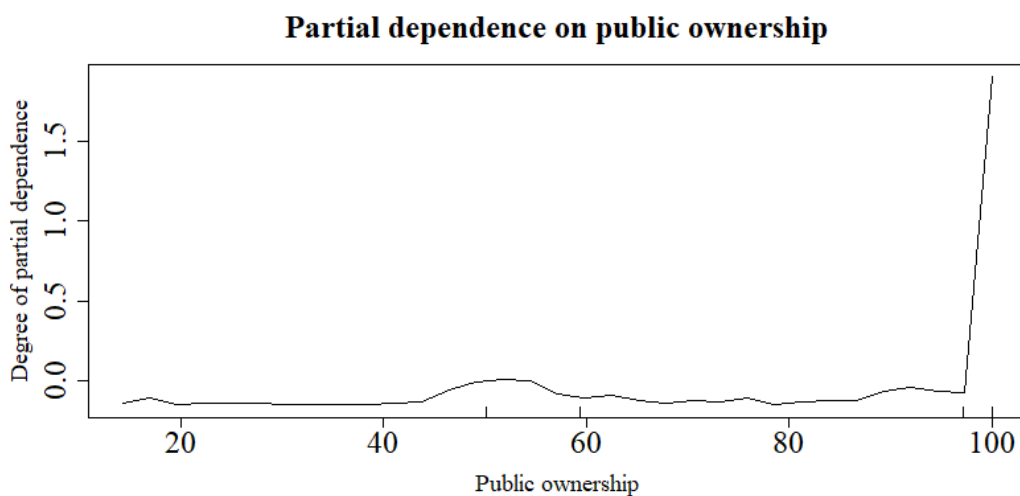
Figure 3.3.: The marginal effects of the predictor variables on the probability of the class *reinternalization*; for the mathematical derivation of the ‘degree of partial dependence’ depicted on the y-axis, see Liaw and Wiener (2002, p. 13) (continued).



(d) The partial dependence on distribution.

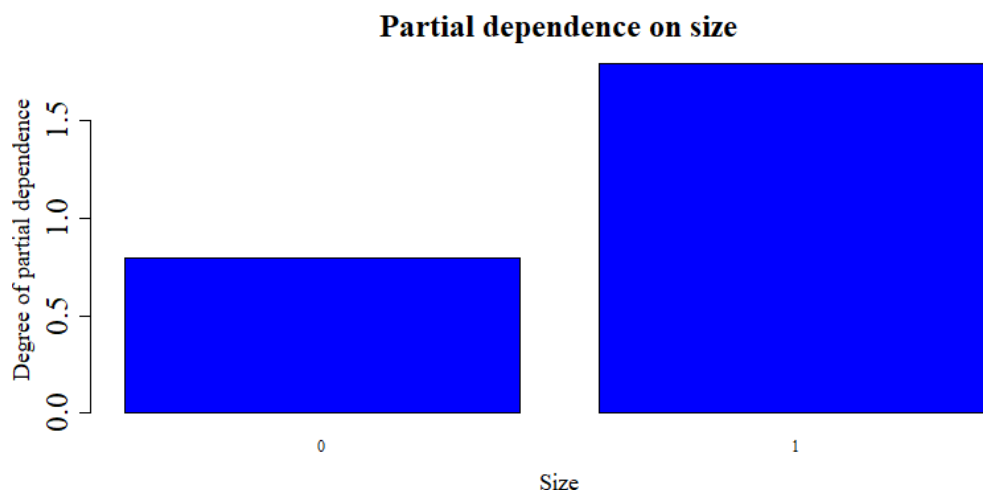


(e) The partial dependence on number of owners.



(f) The partial dependence on public ownership.

Figure 3.3.: The marginal effects of the predictor variables on the probability of the class *reinternalization*; for the mathematical derivation of the ‘degree of partial dependence’ depicted on the y-axis, see Liaw and Wiener (2002, p. 13) (continued).



(g) The partial dependence on size

Figure 3.3.: The marginal effects of the predictor variables on the probability of the class *reinternalization*; for the mathematical derivation of the ‘degree of partial dependence’ depicted on the y-axis, see Liaw and Wiener (2002, p. 13).

3.6. Discussion

This study applied a tension lens to investigate whether LGCs are reinternalized into core administration after their cessation. It rendered reinternalization as a move toward a context, as we argued, more in line with a local government’s premises. Looking at the descriptive dataset, while no reinternalization is the most likely choice when termination is considered, reinternalization is a thoroughly applied alternative (29.9% of all observations, see Table 3.1). Therefore, it is even more surprising that research has largely neglected this type of final resolution reached.

To address this, we analyzed novel longitudinal data of 244 terminated LGCs across English and German local governments through an ML technique. The findings contribute to raising awareness of underlying tensions inherent in local governance reform choices and shifting empirical attention from the ubiquitous ‘outward’ dynamics of local public service delivery to the ‘inward’, reiterating that organizations can have a “[lively] live after death” (MacCarthaigh, 2014, p. 1034).

The findings demonstrate that resourcing decisions are more strongly determined by tensions proxied by a company’s service type, lifespan, and national context. The lim-

ited significance of size lends weight to the low to no effect observed by (Corbett and Howard, 2017).

Except for size, the less-contributing variables (rank 4 to 6, see Table 3.2) all relate to a company's ownership structure. While this is interesting and transcends quantitative survival studies that often focus on organizational national culture, size, and age, the lack of relative model relevance may suggest that formal ownership is not as crucial to decisions or conflictual (Friedländer et al., 2021), and that tensions are also caused by other levels of vulnerabilities, rationally or irrationally motivated (Da Cruz and Marques, 2012; Rackwitz and Raffer, work in progress), also see the debate on ownership publicness versus control publicness by Bozeman and Bretschneider (1994).

The relative model relevance of tensions proxied by life span and size, both key factors prominently cited by population ecologists for the survival of private firms, also states—crucially—that while there is potential for more integrative theory, the transferability of arguments valid for the private sector is a task that needs to be carefully crafted because, as the highest model relevance of service clearly shows, these arguments remain incomplete for public sector corporate dynamics. These are insights that cater to calls by Andrews (2022) and Gradus and Budding (2020) yet urge research to more closely examine the impact of service characteristics on organizational termination and, more generally, their suitability for being corporatized by a public authority in the first place.

Moreover, tensions may be mutually constitutive (Lüscher and Lewis, 2008) and organizational macro and micro levels intertwined (Andriopoulos and Lewis, 2009). While the random-forest approach accounts to some extent for this cross-level dependence, it strikes that the tensions with the highest model relevance refer to external forces that apply to a large population of organizations that are similarly affected by macrosystemic challenges (tensions) such as national culture, service type or age, while the others are conversely internal forces that apply to a subsystem facing relatively individual microsystemic challenges (tensions), such as size, or ownership. Compared to microsystemic variables, tensions associated with macrosystemic variables are seen as more permanent or “appear intractable” (Jarzabkowski et al., 2019, p. 1) and are thus difficult to moderate individually (Vangen, 2017a). Additionally, as we deduce, pub-

lic power-holders may perceive little leeway for synchronization, consequently leading them to favor resourcing. Therefore, we may propose a pattern linking tensions and responses to the debate, suggesting that tensions arising from macrosystemic rather than microsystemic settings are more likely to determine institutional responses (cf. the literature on the influence of scale on collective action problem solving, Hahn and Knight, 2021). However, substantial research is needed to identify the underlying causal mechanisms more clearly see (Jarzabkowski et al., 2013).

The findings regarding particular attribute levels of features proxying tensions that lead local governments to choose or refuse reinternalization are more puzzling, only partially backing Hypothesis 2.

Contrary to our assumption and contrasting (Andrews, 2022), all services with social relevance (except housing) have a low likelihood of being brought in-house. This high probability for housing could stem from the fact that it is characterized by sensitive public interest and is thus a highly controversial, low-market service for which disruption is generally not considered a social good. Additionally, especially in England, there have been relatively negative experiences concerning ‘arms-length’ entities inadequately fulfilling their housing responsibilities, which manifested tensions that were defensively countered by institutional reorganizations (e.g., the landmark case of London’s ‘Grenfell Tower’, Hodkinson, 2020).

The results suggesting that development services tend to provoke reinternalization are less intuitive. However, this could be traced to the inconsistent level of quality measurement, and commerciality of the related sub-services, which, in turn, have a less polarizing proneness to tensions in line with (Brown and Potoski, 2003). While these findings fuel the debate about which services are suitable for outward provision in the first place, greater nuance in further studies may provide greater clarity.

Inconsistent with Hypothesis 2, the evidence for ownership suggests that where there is arguably a lower level of tension and, thus, a greater degree of cognitive agreement (Makhija and Ganesh, 1997), such as occurs with full public, sole, and perfectly balanced ownership, reinternalization tends to be preferred.

Similarly, the findings do not confirm governments reclaim very young or small companies susceptible to tensions. This is more likely for older and larger companies. This

could be explained by the “liability of adolescence” (Fichman and Levinthal, 1991, p. 442), which states that companies, after an initially vulnerable period of orientation, consolidate their preferred “beliefs” or “psychological commitment”; when these do not accord with those of the core administration, tensions arise, which could result in reinternalization. These results could, however, also stem from a measurement idiosyncrasy, and it may be the ‘perceived’ rather than actual size of a company that causes tension and, as Corbett and Howard (2017) demonstrate, triggers termination.

Contrasting with our assumption, the results indicate that reinternalization is more likely in England and, thus, in a traditionally more market-affirmative environment, an environment expected to be less fraught with tension. This, however, may well reflect England’s more radical either/or approaches to reform decisions (C. Cooper et al., 2021). It should also be noted that the German local corporatization landscape exhibits increasingly branched structures of directly and indirectly owned entities (Rackwitz and Raffer, work in progress). This means German local government administrations have greater scope for applying alternative organizational forms that gradually increase their influence on services (Torsteinsen, 2019; Wollmann, 2016b). Against historically stronger skepticism toward neo-liberal reforms, this illustrates a less radical, more ambivalent market attitude that tends to avoid both privatized (low control) and in-house delivery (full control).

Concurrently, however, the relevance of this variable is comparatively low, which again puts the context dependency into perspective and suggests that the directional potential of national culture may be overrated (cf. Schröter, 2019) and that other overarching corporate dynamics are involved (see Table 3.3 for illustration of the final findings in consideration of macro versus micro-level tensions).

Overall, Hypothesis 2 requires a more differentiated view, and ‘tense’ times do not necessarily result in some type of company termination. For instance, challenging Cui et al. (2011), Talay and Akdeniz (2009) find that goal incongruence does not contribute significantly to dissolution, which they attribute to timely tension navigation, as also suggested by Skelcher and S. R. Smith (2015). In-depth process tracing on effective management and leadership interventions will clarify.

Table 3.3.: Grouped company features proxying tensions and associated attribute levels most likely to be reinternalized ranked by model relevance.

Predictors variables (features)	Attribute levels
Macrosystemic	
Service type	Housing companies
Lifespan	Adolescent companies
Country	English companies
Microsystemic	
Ownership distribution	Equally distributed ownership
Number owners	Sole ownership
Public ownership	Full public ownership
Size	Largest companies

Awareness of underlying tensions—that may guide the decision to choose or refuse a particular type of termination—can stimulate reflective management practice and aid practitioners in making conscious decisions that consider potential tensions and their consequences early on. At the same time, it cautions public managers not to simply ‘borrow’ strategic solutions from their private sector colleagues and vice-versa. Some limitations to this study should be acknowledged but at the same time open new research opportunities.

Limitations and future research avenues First, the tensions proxied in their combination were intended to represent the unique composition of LGCs, yet are merely exemplary; termination outcomes may be related to additional, unobserved parameters. For example, another interesting potential tension would be a funding or aid institution paradox; more specifically, how funding the problem and the solution impedes (a company’s) progress (Fleming et al., 2021). In fact, the analysis did not distinguish between voluntary and compulsory company closures, yet these are sometimes forced due to discontinued funding or legislative change at the EU (at least prior to Brexit, single market rules might, e.g., explain some of the lack of reabsorption of environment and transport sectors; see M. Pollitt, 2019; Rosell and Saz-Carranza, 2020) or national levels (e.g., austerity pressure post-financial crisis pushing authorities into changing ownership and organizational forms, Cumbers and Becker, 2018).

Second, while this MDSD helped to detect overarching patterns by providing data variance, it naturally reduces comparability. For both aspects, a more detailed country comparison with case-sensitive analyses is key to add to the picture. This may involve taking into account the countries' regulatory frameworks, the local single-tier (England) versus two-tier board (Germany) structures and their effect on politicians' monitoring role in operational decisions (Andrews, 2022), or the mediating effect of a local government's historical expertise in managing tensions. Such aspects are all likely to influence the ability and need of local government to bring functions back under full control. Future studies could pursue contextual elements further, including inquiries into institutional heterogeneity, given the cases' large spatial dispersion within each country (see Figure 3.2).

Moreover, it would be interesting to see how a company's 'perceived' size relates differently to tensions and termination outcomes compared with its actual size (Corbett and Howard, 2017). Relatedly, as noted earlier, caution is warranted in transferring theory assumptions from the literature on private firms to their public counterparts one-to-one. A replication of this study in private sector environments would be insightful and elaborate on cross-sectoral differences and similarities in termination dynamics more soundly.

Third, the design focused on limited liability companies and one specific delivery mode following termination, but this was at the expense of nuance. Hence, it would be promising to explore termination linked to different LGC organizational forms and zoom in on the 'no reinternalization' variable and its facets to obtain an even more nuanced understanding of local governments' sourcing decisions. While this was not possible for this paper due to the limited number of companies terminated in the study period, it could be achieved by successively adding more data points to the set, such as more countries, service types, or, in the future, more years, thus gradually improving the algorithm.

Similarly, ML and the random-forest approach offer many advantages not only for this study's research question and data basis but also generally for tracing decision-making in dynamic governance contexts, holding unprecedented opportunities for increasingly sound policymaking even with limited data available. However, this method

also involves artificially generated cases; thus, expanding the sample to include more companies would be useful for increasing the robustness of the findings.

3.7. Conclusion

By bridging the literature on corporatization and organizational survival, the very concept of organizational tension offers a useful approach to reconciling explanations for public-management reform strategies. More specifically, this study encourages focusing on the widely neglected inward dynamics of service provision by representing an attempt to elucidate the explanatory potential of ‘tense’ times to understand a local government’s sourcing decisions. This lays the foundation for more extensive testing and refinement, for which ML has proven valuable, provided careful tuning of hyperparameters and sufficiently large and sound databases. It also highlights that, while advanced analyses of corporatization as a middle-ground strategy will continue to be critical, its reversal and the corresponding consequences for local governments deserve future visibility in a renewed research agenda.

4. Closed down, yet tasks remain: Local government responses to the aftermath of corporatization in England and Germany

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4.1. Abstract

While scholars have discussed the pros and cons of corporatization, they often neglect that many local government-owned companies end up being terminated, especially when their functions are returned to the core administration and public and private rationales collide potentially. We employ a paradox lens to illuminate how local English and German governments respond to the inherently tense event of reinternalization. Alongside shifting the ubiquitous outward-facing empirical focus to the ‘inward’ dynamics of public service delivery, we offer a multi-level, cross-national perspective to paradox literature by linking organizational and individual responses to tensions, using documentary and semi-structured interview data. We present three scenarios of a recursive effect in which organizations demonstrate strong leverage in enabling or constraining individuals to adopt a paradox mindset and deal with tensions, and vice-versa. National context only marginally affects paradox coping of microfoundations and further impacts organizational adjustment; meanwhile, framing, boundary setting, and timing prove crucial parameters. These findings enrich the literature on paradoxes, corporatization, and organizational restructuring.

Keywords: Corporatization, Local government-owned companies, Reinternalization, Paradox lens, Public service delivery, Cross-national

4.2. Introduction

We examine the nexus between organizational- and individual-level responses to tensions when functions (tasks and personnel) are returned to the core administration of the local government after corporatization. Although a large corpus of literature (e.g., Andrews et al., 2020; Bel et al., 2022; Lindlbauer et al., 2016; Stiel, 2022; Voorn et al., 2018) discusses the advantages and disadvantages of corporatization–local government-owned companies providing public services–, few consider the fact that many corporatized entities are terminated, with the functions of some fully reinternalized into the public sector (Friedländer et al., 2021; Gradus and Budding, 2020; Warner and Hefetz, 2012).

Local government companies (LGCs) are constituted by a pluralistic market (private law) and state (bureaucratic hierarchy) logic set within a network (Skelcher and S. R. Smith, 2015). These rival logics can produce tensions resulting in contradictory rationalities, such as autonomy versus dependency or individualism versus collectivism (Leixnering et al., 2021; Raza-Ullah et al., 2014). Reinternalizing a former company's components into a core administration involves a restructuring process, wherein original tensions are reinforced, contested, or revised and the tension associated with change and continuity itself is confronted. Thus, bringing them into the bureaucratic realm may be particularly challenging and inherently paradoxical; it requires local public administrations to work through a potpourri of existing, overlapping, complementary, and competing organizational forms and logics (Olsen, 2008).

Paradox literature offers useful insights into how this process might unfold, with paradox referring to the contradictory yet interrelated organizational elements that appear logical in isolation but oppositional in conjunction, and that persist over time (Lewis, 2000; W. K. Smith and Lewis, 2011). Paradox scholars have long posited the mutually constitutive and recursive nature of paradoxes across multiple levels (Andriopoulos and Lewis, 2009; Jarzabkowski et al., 2013; Lüscher and Lewis, 2008). This suggests

that organizational approaches to the tense process of differentiation and (re)integration (Kretschmer and Puranam, 2008; Lawrence and Lorsch, 1967; Schad et al., 2016) feed into inner conflicts among or habits of the individuals it directly affects, highlighting the role of power dynamics (Berti and Cunha, 2022; Berti and Simpson, 2021). For example, reinternalized employees (hereinafter referred to as ‘returnees’¹²) who internalized company logic and now experience competing demands may have their pressures increased or relieved by the leverage of the reinternalizing organization (hereinafter referred to as ‘council’¹³). Recent literature considers the role of a paradox mindset in mitigating tensions, shifting the focus away from organizational efforts to microfoundations (Keller et al., 2017; Schneider et al., 2021; W. K. Smith and Tracey, 2016). However, there is little empirical knowledge on how the interactions between different levels make latent tensions salient and thus, palpable, thereby potentially impacting agency and response capacity (Andriopoulos and Gotsi, 2017; Berti and Simpson, 2021; Hahn and Knight, 2021; Lempiälä et al., 2022; Miron-Spektor et al., 2018; Schad et al., 2016).

In response, we trace the nexus of paradox coping at the organizational and individual levels during local government reinternalization, focusing on employees. Specifically, we ask: How do individuals experience and cope with tensions, vis-à-vis the organizational actions taken during reinternalization from former LGCs? We draw upon fully coded original data from documents and semi-structured expert interviews across local governments in two ‘most different’ Western European countries: England and Germany (Wollmann and Marcou, 2010).

Sections 4.3.1 and 4.3.2 introduce the theoretical background of the study, Section 4.4 describes the data and methodology, Section 4.5 presents and Section 4.6 discusses the results, Section 4.7 presents the conclusion.

4.3. Theoretical background

4.3.1. Applying a paradox lens to service reinternalization after local government corporatization

Organizational research has long been concerned with organizational differentiation and integration and their tensions (Kretschmer and Puranam, 2008; Lawrence and Lorsch, 1967; Schad et al., 2016). One stream of this research has examined ‘post-merger integrations,’ but most findings refer almost to either solely private-sector firms or public-sector settings, which are less contradictory because they are premised on a similar corporate logic (Drori et al., 2013; Stahl and Voigt, 2008) or state logic (Randall and Procter, 2013; Thomasson, 2018). Private-public merger evidence is limited to outsourced entities (Da Cruz and Marques, 2012; Thelisson et al., 2018; Thelisson and Meier, 2020; Thelisson and Meier, 2022). However, these studies show that mergers can override or synergize organizations’ cultures, values, functions, or forms. For instance, Da Cruz and Marques (2012, p. 1) conclude that “no man can serve two masters” and that private-sector logic eventually prevails. By contrast, Thelisson and Meier (2020, p. 13) find evidence of “market-political ambidexterity” achieved by accommodating market and government expectations.

This tackles the existing robust literature on the differences and similarities between public and private organizations, including the widely discussed public management phenomenon of ‘organizational blurring,’ which results from the increasingly complex policy networks of a pluralist state (Mahoney et al., 2009; Osborne, 2010; Rainey and Bozeman, 2000), which may manifest in publicly owned companies (Denis et al., 2015).

These multi-actor contexts are inherently paradoxical (Provan and Kenis, 2008; Ospina and Saz-Carranza, 2010; Vangen, 2017b) owing to their “persistent contradictions between interdependent elements” (Schad et al., 2016, p. 6), manifested in competing demands, such as autonomy versus dependency or individualism versus collectivism (Bengtsson and Kock, 2014; Schad et al., 2016). Scholars have studied how these paradoxes develop in hybrid arrangements (Henry et al., 2022; Sharma and Bansal, 2017), but not what remains when they are terminated.

While much is known about the dynamics of moving public services beyond core administration to fully or partially publicly owned companies or private contractors (Andrews, 2022), less is known about the ‘inward’ dynamics. Scholars have recently focused on the reverse contracting of fully privatized services, often referred to as remunicipalization or deprivatization (Bovaird, 2016; Cabral et al., 2013; Clifton et al., 2021; Gradus and Budding, 2020; Voorn et al., 2021; Warner and Hefetz, 2012; Wollmann, 2016a). Nonetheless, ‘decorporatization’ or reversing and reinternalizing formerly corporatized functions remains a black box. Few studies on company termination were only marginally concerned with its possible follow-up forms (complete dissolution, merger, transfer, and reinternalization) and did not track the often-unintended consequences of such restructuring for public entities (see Andrews, 2022; Camões and Rodrigues, 2021; Corbett and Howard, 2017; Gradus and Budding, 2020; MacCarthaigh, 2014; Rackwitz, work in progress). This suggests that logic does not dissipate during company closure and reinternalization and instead enters the core administration in various configurations and intensities through structural adjustment and/or personnel transfer.

Indeed, latent tensions become salient depending on the specific “measurement apparatus” (Hahn and Knight, 2021, p. 370); that is, the socio-material context—especially during restructuring (Abdallah et al., 2011; Lüscher and Lewis, 2008), when “change spurs tensions between the old structures and the new ones that emerge as [organizations] struggle with simultaneous needs for stability and change” (Lewis, 2000, p. 247) and intensify amidst scarcity and uncertainty (Jay, 2013; Miron-Spektor et al., 2018; W. K. Smith and Lewis, 2011). This study clarifies why and how this is the case during reinternalization. Reinternalization as a case of (re)integration following earlier differentiation (cf. Berge and Torsteinsen, 2022) exemplifies an uncertain endeavor often directly related to resource scarcity. Corporatization may have resulted in the departure of specialized knowledge from the core organization, leaving local governments to reconstruct essential know-how considering the limited time and unpredictable returns. Moreover, company closures and subsequent reinternalization may often be done to regain central control, as undesirable developments or resource shortages—or both—compel portfolio cuts, especially owing to inefficiencies. Little expertise with reinternalization adds uncertainty to the process and its outcomes (APSE, 2019; Lamothe et al., 2008).

Alongside the ‘paradox of organizing’ occurring at the macro level, reinternalization can also pose several challenges for those affected by them, such as finding their way and (re-)positioning themselves in terms of identity, role, and/or goals, which is exacerbated if the ‘new’ markedly contrasts with the ‘old’ (Schneider et al., 2021). Such meso- and micro-level paradoxes comprise the ‘paradox of belonging’ and the ‘paradox of performing’ (that contrast with the paradox of organizing). Ultimately, it is the agents who may feel torn between group values and beliefs of dissimilar normative contexts (meso level) or prompted to perform conflicting roles/activities (micro level) (Jarzabkowski et al., 2013). This may involve different understandings of success and failure (Jay, 2013) and can lead to “frustration, blockage, uncertainty, and even paralysis” (Putnam et al., 2016, p. 68). For example, in a former LGC (even if it was fully publicly owned), operating principles under private law might have followed the doctrine of efficiency and output, while the new environment may focus on procedural accountability and outcomes (Andrews, 2022), and limit the competitive advantage of going the ‘extra mile’ (Bourdeaux, 2007). Similarly, while lines of command might have been relatively horizontal and deregulated in the LGC, the core administration is typically highly hierarchical, allowing little leeway for taking ownership (Da Cruz and Marques, 2012; Laffont and Tirole, 1991; van Hille et al., 2019).

While these three types of paradoxes illuminate the nature of tensions in reinternalization, they do not reveal how to work with or against them, which ultimately impacts restructuring (Lüscher and Lewis, 2008). Responses to tensions are commonly divided into defensive and proactive approaches (though X. Li, 2021, moves beyond these categories), with the latter referring to those who take on a paradox mindset and “tend to value, accept and feel comfortable with tensions” (Miron-Spektor et al., 2018, p. 5). This is consistent with the observation of Jarzabkowski et al. (2013, p. 246) procedural problems arise during restructuring when “managers attempt to avoid or circumvent these paradoxes, while proactive responses that accept the paradoxes permit an organization to move on and live with the paradox.” We draw upon this distinction to capture the reinternalization processes of services no longer under private law. In terms of paradox theory, a proactive reaction embraces ambiguity and harnesses tensions (Battilana et al., 2013) by dealing intensively with the newly added components (tasks and person-

nel) (Cloutier and Langley, 2017; Xiao et al., 2019). In contrast, a defensive reaction is dismissive and limits synergies (even if only temporarily), which can cause systemic dysfunction (Lewis, 2000; Skelcher and S. R. Smith, 2015; Sundaramurthy and Lewis, 2003).

Although various types of paradoxes and responses have been extensively theorized, their conditional nature has received little empirical backing (Andriopoulos and Gotsi, 2017; Berti and Simpson, 2021; W. K. Smith and Lewis, 2011; Schad et al., 2016). Lempiälä et al. (2022) address the discrepancy between theoretical claims and empirics by demonstrating the intertwining of performing and belonging paradoxes in a Nordic non-profit organization. In a longitudinal study of a telecommunication company, Jarzabkowski et al. (2013) show how performing, belonging, and organizing paradoxes co-evolve; how responses are mutually definitive; and how these elements are ultimately embedded within organizational procedures and rules. Similarly, we unfold “how responses to paradox[es] at different levels shape each other and how they may escalate or minimize the tension between paradoxes” (Jarzabkowski et al., 2013, p. 246) after an LGC’s tasks and personnel are transferred to the core administration.

4.3.2. Empirical setting

We follow a ‘most different systems design’ (De Meur and Berg-Schlosser, 1994) to ensure diverse data and thus, robust findings. Identifying potential patterns implies that an overarching dynamic is at play, regardless of cultural or political traditions. This can be extrapolated to critical implications for paradox management and service reinternalization. Therefore, we studied two countries that may have experienced some convergence due to EU single market efforts but differ in their administrative traditions and reform trajectories (e.g., Wollmann and Marcou, 2010), which are mirrored in their conceptions of the market and state and expected to be reflected in “habitual ways” (Vangen, 2017a, p. 306) that inform local authorities’ decision-making and problem-solving (Dyson, 1980; Yesilkagit and J. G. Christensen, 2010): England and Germany.

As the welfare state and macroeconomic Keynesian management emerged in the mid-twentieth century in Western Europe, the United Kingdom pursued neoliberal reforms, empowered by a focus on entrepreneurship (based on pragmatism and pluralism) and a

rejection of rule-based conformity and hierarchical organizational norms (Letwin, 2018; Schröter, 2019). In Germany, policymakers were hesitant to embrace a market orientation and only adopted rudimentary elements of what is frequently called the New Public Management (NPM) reform (Hammerschmid and Oprisor, 2016; Kuhlmann and Wollmann, 2019). This reluctance was due to a resolute critique firmly anchored in the traditional theory of public administration. Compared with British liberal and utilitarian thought, including private sector elements was at odds with basic administrative doctrines intended to ensure democratic bureaucratic accountability (Schröter et al., 2019). These reservations led to varying novel forms of institutionalized interactions at the national level between the public and private spheres, including municipal corporations organized through sole public or combinations of public and private actors. Although such public-private interactions were not new in Europe, difficulties arose when the ‘inviolable’ hierarchical boundary was challenged by dissolving authoritative relationships to enable entrepreneurs and bureaucratic experts to share power (Osborne, 2010; M. Pollitt, 2019).

The form and function in England were determined by the national government, given the country’s comparatively strong unitary state system, with the sovereign parliament’s pronounced delegating power. Most local government activities are prescribed by national legislation. A wave of outsourcing public services occurred in the 1980s. Whether this was ideologically or pragmatically motivated remains debatable (e.g., Gradus and Budding, 2020), but it was triggered by imposing complex capital controls on local authorities. Creating ‘arm’s length’ companies or public-private partnerships became a legitimate means of circumventing capital controls or raising funds. Although setting up companies remains a viable route (e.g., to access structural funds; Andrews et al., 2020), political changes cause many companies to lose their instrumental purpose, leading municipalities to revise their delivery decisions and internalize these activities (APSE, 2019).

In contrast, Germany—a federal, legalistic state—enjoys a tradition of consensual governance and power-sharing among government branches. The right to self-government guaranteed in the constitution has led to a strong local government landscape that is much more distributed than that in England. Local governments control smaller terri-

torial units and have a wide scope of action for an “unusually broad catalogue” (Wollmann, 2004, p. 659) of functions and responsibilities. They are more independent of central government discretion but dependent on local (political) particularism, which often decides corporate fates (Rackwitz and Raffer, work in progress).

In both countries, but especially in England, negative experiences with private contractors have led to sharp public criticism (see Labour, 2020), leading local authorities to reconsider involving the private sector in delivering public services. Some scholars hypothesize that a general shift against the market in favor of the state began in the early twenty-first century (T. Christensen and Lægreid, 2011a; Hartley et al., 2013), “signifying a sharp break with neoliberal understandings of how cities (...) should be governed” (Becker et al., 2015, p. 80). However, local empirical evidence is weak (Gradus and Budding, 2020; Kuhlmann and Schwab, 2017; Wollmann, 2016a). For England, reinternalization has been placed on the political agenda, and several reports refer to recent incidents of reinternalization into local authorities, with more expected in the near future (APSE, 2019; Labour, 2020; UNISON, 2011). However, systematic evidence from other countries is nearly non-existent. As revealed by a recent study on reversals, German local governments rarely reinternalize terminated companies and instead facilitate an alternative mode of service delivery beyond core administration (Rackwitz, work in progress).

Meanwhile, “the experience of what works and what does not, as well as multi-layered changes, globalization, increasing importance of the internet, demographic development (...) integration of refugees (...) have changed the framework conditions,” encouraging strategic reorientation, which may favor future reinternalizations, as noted by a working paper on a recent German case (Doc-20, p. 1). Accordingly, it is crucial to extend research on service delivery to inward dynamics and highlight their perils and pitfalls.

4.4. Data and method

We adopt a qualitative case study methodology, suited for disentangling the multiple factors that guide behavioral choices (R. K. Yin, 2017), to clarify how subtleties, such

as organizational environmental dissonances, are perceived at different hierarchy levels and within different functions (Lijphart, 1971).

4.4.1. Case selection

The unit of analysis is the local authority implementing the council's decision to reinternalize former LGCs and those involved in reinternalization. The specific corporate form of limited liability companies is the only justifiable legal means for analyzing dispersed private-sector elements within a public service arrangement. The service areas of development, regeneration, and housing were chosen to ensure comparability while maximizing sample size. Rackwitz (work in progress) suggests that these services are most likely to be reinternalized. The case selection was based on Rackwitz' unique dataset of 244 LGCs that ceased operations between 2010 and 2020, some of which were reinternalized into service sectors. We collected information on these LGCs through documents and interviews and only analyzed those with sufficient data. Ultimately, our final sample included seven English and 12 German cases. The sample demonstrated wide variations in the means and distributions of city and company size, demographics, and long-term debt, evidencing its representativeness (Table 4.2). These data served as a solid basis for identifying cross-case patterns. Full anonymization served to protect the organizations' and individuals' privacy; thus, detailed case descriptions were not included.

4.4.2. Empirical strategy

Documentary data—systematically gathered from several sources—and semi-structured expert interviews were used to trace paradox management during reinternalization. We started with an online search for relevant information in newsletters or newspapers, followed by a search for available case-related reports, meeting minutes, or annual accounts on local authority websites. We sent additional formal requests for information on unpublished material. Finally, we asked each interviewee about non-public documents. In total, we analyzed 223 documents; 46 were coded (see Annex, Table A.4 for a list of documents cited). Interviewees were identified by starting with an initial key stakeholder, who was then asked for recommendations for further relevant contacts (Palys, 2008). This produced names of external consultants involved in one or more

Table 4.1.: Overview of interviewees¹⁴

Country	Integrated staff	Council staff	Consultants	Total
England	17 (Int-1:17)	6 (Int-18:23)	4 (Int-24:27)	27
Germany	14 (Int-28:41)	8 (Int-42:49)	5 (Int-50:54)	27
Total	33	12	9	54

reinternalization processes, employees who had been reinternalized, or employees of the departments concerned (see Table 4.1 for an overview of interviewees). For each case, at least one returnee and one individual who oversaw the process were chosen to represent different positions, providing a balanced picture. We interviewed 54 individuals, a sample size commonly considered sufficient to adequately detect patterns and differences across subjects (Glaser and Strauss, 2000; Saldaña, 2021). Interviews were conducted in English or German from August 2021 to January 2022.

The interviews were conducted via video calls and lasted for an average of 45 minutes (about 2400 minutes in total), depending on the interviewees' involvement in the process. To avoid bias, one interviewer conducted all interviews (Nowell and Albrecht, 2019). The interviewer used a semi-structured interview guide designed to give the interviewee latitude in deciding how to answer. Three-part questions were used to capture all facets of the reinternalization process: introduction (e.g. "Why was the decision made not to close, merge, or privatize the service?"), core questions based on case specifics, and a 'wrap-up' (e.g. "Looking back, what would you recommend to a colleague who was to undertake a similar reinternalization?"). Particular attention was paid to "problematization" (Jarzabkowski et al., 2019, p. 125)—situations when interviewees felt dissonant.

4.4.3. Coding

The interviews were transcribed verbatim and coded with the selected documents in their original language using the MAXQDA software. This was done in a two-step process that combined inductive coding (undefined types of 'tensions') with deductive coding (two predefined types of 'responses': proactive and defensive, two predefined types of 'analytical levels': organization and individual, and a 'temporal dimension' to

capture shifts over time) (Miles et al., 2013). This approach involved several iterative cycles reflecting the data against the paradox literature.

Tensions in organizational change may be accessed in several ways (Andriopoulos and Gotsi, 2017). We scanned our data for key features of paradoxes: contradiction, interrelation, and persistence (see Schad et al., 2016). This study's contemporary nature meant that 'contradiction' and 'interrelation' could be verified in some cases while verifying persistence would require prolonged process tracing. Accordingly, we use the term 'tensions' instead of 'paradoxical tensions'.

The researcher conducting the interviews was also responsible for coding. Although this approach comes at the expense of a diversity of perspectives, it has the advantage of avoiding problems caused by perceptual deviation (O'Connor and Joffe, 2020). The coding was not intended for quantitative analysis, but for a systematic structuring of the extensive text material and triangulation among the sources according to the research aims.

4.5. Results

4.5.1. Descriptive analysis

Descriptive case information was obtained from the documentary data; if documentary data were missing, they were supplemented by interview data. While the cases' locations were blinded for anonymity, there was a large spatial dispersion that allowed us to control for the effects of institutional heterogeneity. Table 4.2 provides an aggregated overview (means, standard deviations, and minimum and maximum values) of the cases' key characteristics.

While this indicates the local context and individual case size, it also exhibits their great diversity beyond spatiality. This variation allowed us to identify overarching dynamics and ensure validity and robustness. Both the English and German sets comprise small and large cities that have grown or shrunk to varying degrees since 2011; their wide variety of long-term debt indicates financial prosperity. The companies' lifespans ranged from 5 to 22 years. There are clear country-specific differences in the number of personnel: In England, reinternalized companies have up to 800 employees, whereas, in

Table 4.2.: Key characteristics of the cases under study.

Country	Variable	Definition	Obs	Mean	SD	Min	Max
England	Locality		12				
	Size	Population in the year prior to reinternalization		344,315.7	186,370.9	158,919.0	706,433.0
	Deviation	Population change since 2011 (since the last census)		5.2	5.0	0.0	11.9
	Long-term debt	Long-term debt as a % of revenue expenditure in the year prior to reinternalization		57.4	29.7	0.0	101.0
	Corporation						
	Lifespan	The number of years that elapsed between the date of formal incorporation and the start of reinternalization.		11.9	5.5	5.0	22.0
	Public ownership	Shares held by public organizations as a % of company shares		81.3	33.1	19.9	100.0
	Size (budget)	The arithmetic mean of a company's balance sheet for the three years prior to liquidation		12,261,492.1	15,254,333.9	729,002.0	44,235,666.0
	Size (staff)	The arithmetic mean of the number of staff in the three years prior to reinternalization		444.3	295.9	10.0	800.0
	Staff return	reinternalized staff as % of all former corporate staff		83.3	28.9	33.3	100.0
Germany	Locality		7				
	Size	Population in the year prior to reinternalization		103861,4	134,902.8	13,892.0	499,845.0
	Deviation	Population change since 2011 (since the last census)		1.0	2.5	-1.8	7.2
	Long-term debt	Liquidity loans per capita in the years prior to reinternalization		2,142.9	2,584.4	301.0	9,491.0
	Corporation						
	Lifespan	The number of years that elapsed between the date of formal incorporation and the start of reinternalization.		13.0	4.1	6.8	19.4
	Public ownership	Shares held by public organizations as a % of company shares		79.1	23.0	51.0	100.0
	Size (budget)	The arithmetic mean of a company's balance sheet for the three years prior to liquidation		1,690,624.4	4,031,712.9	42,813.0	13,889,589.0
	Size (staff)	The arithmetic mean of staff in the three years prior to reinternalization		7.2	4.0	2.0	16.0
	Staff return	reinternalized staff as a % of all former corporate staff		76.0	27.1	33.3	100.0

Germany, companies have no more than 16. This is also reflected in the correspondingly lower company budgets. Including cases of full and partial public company ownership further allows us to account for different degrees of commerciality to eliminate bias toward private partner discretion and reflect a more general logic driven by public organizing in the private-law domain.

Regarding the extent of structural reinternalization, in all cases, most former company employees were transferred to the core administration. In Germany, they were usually integrated into the administrative structure close to the mayor. For large companies, specialized elements were placed outside the core administration; hence, departments were newly established. For smaller companies, staff were distributed among local administration functions depending on capacity and divided into new or existing sub-units. In all cases, reinternalization led to varying degrees of tensions at the working level. Responses to this were sometimes accommodating and sometimes hostile. Three scenarios stood out, illustrated below.

4.5.2. Three scenarios

From the coding, we derived three scenarios that directly link different organizational adaptivity forms in reinternalization to how individuals experience and manage tensions. We show how the micro-level reaction (returnee) can spill over to the meso (team) and macro (core administration) levels and vice versa. We distinguish between (1) organizational adjustment by default—openness to structurally and culturally deviate from existing patterns (proactive); (2) organizational adjustment by concession—openness to structurally and/or culturally deviate from existing patterns in a few exceptions (partially proactive) and (3) no organizational adjustment to accommodate competing demands (defensive). For each scenario, the different approaches at the individual level (defensive or proactive) and their immediate consequences are presented and discussed in sub-scenarios. Although our cross-national approach served primarily to base the analysis on a diverse dataset, some country-specific differences emerged. As a result, each of the 19 cases was assigned to either England or Germany (see Table 4.3). Our goal was not to show all possible connections between paradoxes, but to sensitize re-

Table 4.3.: The three scenarios with sub-scenarios each showing the frequency of interplay between organizational- and individual-level responses across our data.

Scenario	Case incidence
1. Organizational adjustment by default	11%
1a. Proactive response	EN 14% (1); DE (0)
1b. Defensive response	EN 14% (1); DE (0)
2. Organizational adjustment by concession	58%
2a. Proactive response	EN 43% (3); DE 66% (8)
3. No organizational adjustment	31%
3a. Defensive response	EN (0); DE 17% (2)
3b. No tension experienced	EN 29% (2); DE 17% (2)

search beyond the isolated analysis of paradoxes and empirically explore their dynamic processes and outcomes (cf. Jarzabkowski et al., 2013).

Scenario 1a. Organizational adjustment by default – proactive response

One English case involved a transformative adaptation for the council and returnees' willingness to actively engage in this process. Tensions manifested when returnees felt torn between the self-attributed pragmatic, commercial mentality and the new environment that focused on outcomes (Int-1; Int-2; Int-18). One returnee used the analogy of a supertanker and a speedboat to compare the council's lengthy and complicated decision-making processes with those of the company (Int-1); a trait that led to frustration, as another recalled:

...that cushioning marshmallow effect of slowing things down and people feeling and having to plan so far ahead. I think there was frustration around. You know, by the time I get the decision back, life's moved on so much, I want a different decision. (Int-2)

In addition to cost-intensive investments in transformation strategy and implementation, the returnees were structurally distributed in existing teams (Doc-1, p.2; Doc-2). This process was actively promoted as an opportunity for talent to grow and thrive on both sides (Int-1), and "to reshape something and do it better" (Int-2). This aimed at combining the benefits of both models during a gradual three-year journey with institutionalized consultative structures to achieve a degree of mutual integration (Int-24, Doc-3) in a "form-follows-function approach" (Doc-3, p.1). This involved, for example, grouping returnees based on their contradictions and understanding this as an asset:

“We gathered a group of people, those that cover the creative, innovative people (...) but also thought soldiers that make sure that things happen otherwise there is the risk of imploding” (Int-18). Eventually, this materialized a multi-level feedback effect:

...there was very, very clear ambition from the council that they wanted to get the best of [the company] and blend it with the best of the council, and that it would be a reciprocal learning journey (...) and we have continued to do that; many of the ways the council currently operates in is changing [under reinternalization]. (Int-2)

Scenario 1b. Organizational adjustment by default – defensive response

In another English case, the returnees reacted defensively despite the council’s proactive efforts to adapt. Here, a new unit had been established at the structural level (Doc-5), a joint administrative team was reorganized, and an external consultant was brought in to conduct talk therapy with everyone (Int-4; Int-6). This was intended to embrace “radical change” (Doc-5, p. 14) including a “new vision” and “new style of working across the organization” (Doc-5, p. 4). Simultaneously, returnees were given the opportunity to voice their concerns and encouraged to shape the process: “If we see we can adapt things, we can change things and make it better,” one interviewee noted (Int-5). This was also reflected in the council’s prioritization process, which was designed to account for plural perspectives:

In the pursuit of this end, the council has engaged management development support to staff: first, to reshape our core values, and second, to set new ways of working to achieve the council’s new priorities. (Doc-5, p. 5)

Nonetheless, returnees exhibited strong resentment, primarily due to the stigma of failure attached to the former company. On the one hand, this manifested tensions—returnees were still attached to the failed organization; on the other hand, for council employees, this contradicted their self-image of a functioning organism: “the [incoming] staff was blamed for failure,” leaving them with the impression of being “second class staff” (Int-3). Additionally, despite extensive accompanying measures, the change was sudden, leaving little lead time for those affected to prepare (Doc-6, p. 6). Eventually, this resulted in a mass turnover. The council could not find new, adequate personnel (Int-4; Int-5) and realized the “often underestimated logistical complexity in bringing

in the workforce as well as the underestimated time and effort it takes to create a new identity” (Int-19).

Scenario 2a. Organizational adjustment by concession – proactive response The most frequently observed scenario was that the council agreed to adaptations as an exception when dealing with the ‘new’, linked to a similar accommodating response by returnees. In eight German cases, tensions built up due to competing stakeholder demands and incompatible work logics. Several returnees emphasized the councils’ tedious processes, especially disclosure requirements and procurement, which contrasted with their need for responsiveness (Int-28; Int-29; Int-33; Int-37). Another stressed the neutrality principle, which worked against his understanding of a decent customer approach: “Acting externally naturally takes place more at eye level with the customer” (Int-30). The impossibility of straining labor law served as another example:

When we have events like this, we sometimes stay back for 10, 12 hours, even 13 hours. Then the human resources department comes and says, ‘yes, but you’re not allowed to work that long.’ Yes, great. We’re not allowed to, so what do we do now? Do we go home two hours earlier or how is that supposed to work? So, we have an understanding [of permitted work hours], but when you have an event, you cannot just say after 10 hours, ‘so, my working hours are now over; we’re going home’, leaving the event unattended. (Int-32)

One returnee missed flexibly using a company car, publishing a press release, or advertising via social media to withstand competitive pressures by emotional appeals, which now required lengthy approval (Int-34). Originally valued for her emotionality, creativity, and goal-oriented nature, another returnee integrated into an existing team (Doc-7) saw herself threatened, “the emotional part is whipped out,” (Int-33) and highlighted large disparities between her cohort and the council’s staff.

The council worked to partially adapt in all cases, easing returnees’ ability to find their way into a meaning-making process. The returnee seeking creativity was tasked with re-designing a local market concept (Int-45), which she felt allowed for “self-development within boundaries” (Int-33). To safeguard neutral ground for customer relations, returnees planned meetings outside the city hall (Int-43), while the company’s previously

used social media profiles could be adopted despite the council's strong initial skepticism: "Fine, then we'll just unlock that for you" (Int-30). However, labor laws remained restrictive; instead, adjustments were made to maintain flat rates used previously under private law, which gave the returnee the sense that "somehow everything works out (...) you just have to get your wishes and goals through, otherwise you get swallowed up by big administrative apparatus." Another returnee was proud that certain ways of working, such as customer orientation and cost-understanding, were upheld at the personal or team levels, but did not feel that these mentalities would "spill over" to other administrative areas:

We all strive to make sure that we continue to communicate as flexibly as possible with our official contacts and do not try to fit into the typical administrative image of a possible blockade attitude or bureaucracy monster, or the like. We try to remain as flexible and as dynamic as possible. Our wish, of course, would be that the administration as a whole would learn something from this, but it's clear that it's literally four against 3,000. (Int-33)

In the three English cases in Scenario 2a, the return process was elaborately accompanied and planned. In one case, a very structured approach and extensive support mechanisms with individual learning plans were designed to "up-skill" (Doc-8, p.155) and facilitate adaptation to the public ethos (Doc-9; Doc-10; Int-20). However, the returnees noticed internal politics and lengthy procedures that were not compatible with their pragmatic and commercial mindset (Int-6; Int-8). They dealt with the tensions by trying to maintain their logic (similar to the German cases), which, in turn, was accepted by the council and eventually became established within the team:

There was tension through the process, because we've had more commercial focus, now we have clear outcomes that we are trying to deliver. I actually have started keeping up commercial background on public-sector ground. So our mentor staff, [is] very different from our usual cohort. We are a lot more I'd say pragmatic to come to [an] agreement to make things happen as well and we are not necessarily tarnished or held back by the local authority. (Int-8)

Similarly, in another English case, the former company's policies were partially adopted (Doc-11; Int-25). However, efforts were made through numerous workshops,

conversations, and training to “dissolve that culture of them [the returnees’] enough,” (Int-9) while leaving some margin for deviation, as it quickly became apparent that the returnees’ standards and perspectives were very different from those of the council (Int-25). One returnee described it as “tricky to bring together different ethos, set of priorities, manage change while still the same [person]” (Int-11). This was reflected, for example, in scrutiny as another missed the scope of action without political criticism on expenses (Int-10). Another major tension involved the demand for close cooperation in the absence of competition:

The benefit of being able to be competitive, I wish the Council would allow more of, I understand that the account for that is just service delivery, but among employees, competition is good because it drives performance when you are trying to be better than someone else. (Int-11)

While the returnee worked to adjust, the team maintained some interaction with stakeholders as a “hangover” effect of the company: “So we pander to people rather than having a strategy. We kind of react to them, rather than engage with them. So I think that ethos is still with us” (Int-11).

In the third English case, big differences existed between returnees and rooted staff in terms of priorities, standards and operations. The human resource manager overseeing the process was faced with very “disgruntled staff” because the returnees had previously enjoyed the benefits of a private company, such as “getting things done quickly” or more trivial, free parking or sprawling Christmas parties (Int-21). The general tenor was to align them with the organization’s values “in a planned and integrated approach” (Doc-12, p. 2; Doc-13, p. 2), but some concessions were structural. Incentives were provided for returnees in the form of private health care, and some of the service areas were eventually moved to a profit-and-loss process, so that “the financial accounting related to the services is now slightly different to how the rest of the council operates” (Int-13).

Scenario 3a. No organizational adjustment – defensive response In two German cases, the returnees’ hostile reaction could be observed, coupled with reinforced rigidity by the council. One case involved reinternalization into a newly established department. The main tension was that the requirements of external and internal

stakeholder groups were at odds, and customer acceptance dropped noticeably thereafter. This manifested in less flexible options for action, evident, for example, in the need to create invoices and use USB sticks to quickly transfer data (Int-38). Consequently, the returnee felt neither job could be done satisfactorily; this was reflected in another case, where keeping credit cards on hand was regarded a necessity (e.g., for expenses at impromptu sponsor dinners):

At the [international exhibition], that was last week, someone had to pull out their credit card because they were sitting in the [restaurant] in the evening and were having to make investors and so on happy. Who do you think is going to pull out a credit card, the department head or the [LGC's] CEO? (Int-53)

In the first case, the returnee also saw herself as constrained by being made less visible within the administrative structure below the mayor and countered this tension with defensiveness by resigning (Int-39; Int-48). This was also observed by a manager who oversaw the reinternalization: “Those employees who were more motivated, committed, and modern went down the drain” (Int-48). While it does not starkly contrast with some of the previously outlined cases, the councils did not try to reconcile both poles; instead, they responded to these tensions by reattempting corporatization, establishing another limited liability company (Int-39; Doc-14; Doc-15)—in the first case, they hired a new workforce of formerly private-sector employees (Int-52).

Scenario 3b. No organizational adjustment – no tension experienced In two English cases, there were no salient tensions when the council did not make mutual adjustment efforts during reinternalization. In one case, the company’s benefits never materialized and the process was planned with lead time. The returnees were placed into an existing team of 100 employees (Doc-16; Int-27). One interviewee saw it as a gain in flexibility and was confronted with less bureaucracy owing to previously “reporting on your KPI [key performance indicators], your performance, and your finances (...) on a regular basis. So, a constant need for information, while at the same time reporting to the council’s committee structure” (Int-14). Similarly, another favored the lower degree of hierarchy within the council while the company provided little opportunity to shape the organization: “I have a lot more freedoms since I’ve been back in the council (...)

And so it's felt like there's a lot less bureaucracy actually, now that we're back in the council" (Int-15).

In the other English case, the company had reached a natural conclusion and its team had worked closely alongside the council's team for eight years before being integrated (Int-22), as also reported by a local newspaper (Doc-17). Reinternalization was regarded as seamless (Int-16) and a "soft landing" (Doc-18, p. 2), partly because the move back was portrayed as regaining previously lost control of an inefficient and costly undertaking (Doc-18; Doc-19), as also noted by a returnee:

We have been told and believe that [the company] coming back within the council is a good thing as it promotes working more closely with council officers. These are all very good reasons why [the company] should be wound up and their functions should be the responsibility of the council. (Int-17)

The situation was similar in the German cases, which were described as "rather unexciting" (Int-40) and "factual" (Int-54), with little effort from the core administration. In the first case, returnees were transferred to the mayor's unit to exercise more central control after the company's generally acknowledged unprofitable performance. Eventually, they came into the council's structures on a task-by-task basis (Doc-20; Doc-21; Int-49). All returnees originally came from the administration, which was also seen as the cause of the company's failure, according to the former managing director, "back then, they took their structures and administrative ethos with them as part of the spin-off. So that one could recognize another spirit in the company? No... it [corporatizing] only makes sense if they [the employees] burn for their jobs and something better can come out of it" (Int-49). Instead, returnees seemed happy to return to the "safe womb" of public administration.

In the second German case, the returnees had remained employed by the council while in the company and had been prepared for the restructuring for a long time; otherwise, reinternalization may not have been as smooth, as one returnee speculated (Int-41). The team was placed in the mayor's unit in the same composition and task content, as a council session template records:

The better interlocking and direct contact with colleagues mean that former duplicate structures can now be avoided, which increases efficiency, and

even makes it easier to do justice to both stakeholder groups, the customer and the council. (Doc-22, p. 2)

4.6. Discussion

We explored local governments' responses to tensions across a heterogeneous dataset of English and German service reinternalizations using a paradox lens and linking systemic contradictions to the behaviors they produce. In doing so, we contribute to current research in three ways.

First, we provide a multi-level paradox perspective illuminating why and how tensions become salient during restructuring, depending on the specific measurement apparatus, which adds to our conceptual understanding of the ontology of paradox (Hahn and Knight, 2021). Paradox research has largely focused on single levels of analysis, while multi-level studies helping to better understand the nexus of the organization and individual in paradox management and its outcomes remain scant (Jarzabkowski et al., 2013; Lempiälä et al., 2022). For most returnees, the rigid and time-consuming rules and regulations were at odds with their previous corporate working principles. Others felt restricted in their service promises to customers and viewed the demands as incompatible. While we primarily find that paradoxes of belonging and performing often surface as tensions between flexibility versus control and informality versus formality, organizations have a recursive effect, enabling and constraining individuals in dealing with these tensions.

Scenarios 1–3 clearly show this interaction. Whenever the organization (macro) adapts, either by 'default' (Scenario-1) or 'concession' (Scenario-2), we observe a willingness of individuals to deal with the tension through synthesis at the team (meso) or personal (micro) level (Scenarios-1a and -2a)—either by combining practices or ethos, which manifested as structural changes. The non-existence of scenarios in our findings, which comprise organizational adjustment by default and no tension experienced, organizational adjustment by concession and defensive responses or no tension experienced, and no organizational adjustment and proactive responses, confirms this logic. There was only one exception, which still underscored the recursive effect (Scenario-1b). Here, an individual's defensive behavior was evident despite the organization's

holistic readiness to structurally and culturally adapt. Similarly, less often non-adaptive efforts by the organization (Scenario-3) were closely related to a lack of salient tension (Scenario-3b).

While Scenario-3 may be less intuitive, some explanations can be derived from these cases and summarized as the moderating effects of negative or positive framing, the degree of boundary setting and timing, which is consistent with existing paradox literature. We found that whether the ceased company was framed as a success or failure or reinternalization was described as a salutary change (Scenarios-1a and -3c) or necessary evil (Scenario-1b) influences whether the entry logic produces dissonance (J. Cooper and Fazio, 1984). Framing is linked to systemic boundaries, defining the individual's self and the former corporatized entity within the organization. Is service delivery through corporatization understood as internal or external? Thus, the salience of tension is strongly related to the degree of prior organizational differentiation. Low actual or perceived boundaries may trigger a sense of unity (Ospina and Saz-Carranza, 2010); for example, by keeping the company staff employed by the core administration and alleviating tensions related to the paradox of belonging and performing (Scenario-3c). Additionally, when time is critical and quick decisions are mandated (Scenario-1b), individual agents' behavioral flexibility may be "overwhelmed" (Schreyögg and Sydow, 2010, p. 1259) and their cognitive limits overstretched (Xiao et al., 2019). Contrastingly, sufficient time helps them understand and more consciously navigate tensions (Raaijmakers et al., 2015) in reinternalization (Scenarios-2a and -3c).

Along with deciphering the paradoxes' dynamics, these findings clarify how to reduce tension and promote a paradox mindset at the organizational and individual levels. This caters to Berti and Simpson (2021) critique of the myth of free agency in paradoxical settings and complements Miron-Spektor et al. (2018) understanding of individuals adopting a paradox mindset, adding that it is not only due to resource and time constraints but also an interplay with the organization's willingness to adopt a paradox mindset. Furthermore, as we observed that tensions are navigated through novel syntheses of practices and/or values/beliefs, we add that paradox mindsets can be either pragmatic, ideological or both, with slightly more integrative approaches apparent in England.

This leads to our second contribution which involves our diverse cross-national dataset. While this design was primarily aimed at assessing the universality of claims across conditions, it also shifts the focus of paradox studies to two Western European countries with largely different neoliberal histories. Notably, national comparisons are an essential component of paradox theory (e.g., Keller et al., 2021). However, prior work has centered around cross-continental insights. Keller et al. (2017) and Miron-Spektor et al. (2018, p. 29) stress the extent to which organizational paradox behavior is culturally shaped, and also highlight that lumped together Western cultures are less likely to embrace paradoxical elements than Eastern ones; for example, Chinese cultures tend to “seek harmony among opposing views.” Under the premise that paradoxes are socially constructed (Hatch and Schultz, 1997), Schrage and Rasche (2022) report that national context can create structures that limit agency and that tensions rooted in the same paradox were handled more actively in Germany than in China. Rackwitz (work in progress) presents an exception in this regard, showing in the context of English and German local governments that macrosystemic tensions, such as national context, inform whether ceased companies are reinternalized.

The prevalence of some of the analyzed scenarios across national conditions implies that this is only marginally true for how paradoxes unfold during reinternalization at the individual level, prompting further research into the possible intracontinental nuances or the effects of convergent reforms (e.g., through the EU single market at least prior to Brexit). It also suggests further scrutinizing whether the impact of the national context weakens with a closer focus on the microfoundations of paradoxes.

In fact, no discernible differences between countries were observed in the aggregate—only in the details. However, these differences reveal some interesting insights. In Germany, the council made concessions in individual cases, suggesting rudimentary proactive responses (Scenario-2a). In England, there were minor signs of readiness for a more profound change concerning reinternalization and thus, a more proactive approach (Scenarios-1a and -1b). This is reinforced by the scarce demand in Germany for novel synergy; in fact, active engagement primarily came from returnees, whereas in England, it came from the council. However, greater willingness was found in Germany

than in England to fit seamlessly into the new work environment, indicating a stronger public sector affirmative disposition.

In England, wider cuts that challenged the existing logic were due to the former companies' sheer scale being reinternalized, which predicted more disruption. The greater national experience with reinternalization also meant it was more feasible owing to proven scoping expertise (see APSE, 2019). By contrast, processes in Germany were rarely systematically monitored or accompanied, indicating a reluctance to allocate large capacities to the process. Allocation was accompanied by a willingness to fundamentally revise the council's goal orientation toward a novel contextualized form in only one English case (Scenario-1a) (cf. Cloutier and Langley, 2017; Xiao et al., 2019). This profound form of renewal informed by private law was not observed in Germany, which also points to England's more radical reform tendency (Schröter, 2019).

Furthermore, local German governments have a large portfolio of delivery alternatives, such as mergers or founding new companies, which are more common than reinternalization (Rackwitz, work in progress) and may be preferred over the hazard of eliciting tensions. This is also corroborated by the fact that only relatively small German companies (of a maximum of 16 employees, see Table 4.2) were reinternalized, which may have mitigated the risk of a major disruption. This aligns with two German cases illustrating a more ambivalent attitude. Instead of allowing fundamental change owing to ongoing tensions, a defensive decision was made to reattempt corporatization and re-separation (Sundaramurthy and Lewis, 2003). However, as this may have been purely pragmatic, follow-up studies are needed to clarify what initially motivated restructuring (Gradus and Budding, 2020).

Our third contribution is related to the link between paradox and corporatization research. We shed empirical light on the fraught reinternalization process post-corporatization. Corporatization research has predominantly focused on the outward dynamics of public service delivery and rarely considered the reverse toward full in-house provision. We show that reinternalizing former LGCs is not only a question of restoring something that was previously separated but can ultimately impact how local bureaucracies operate or 'tick'—in most cases adjustment occurred. The aftermath of

corporatization and its implications for public entities should therefore become an integral part of holistic analyses on organizational reform (cf. Rackwitz, work in progress).

Our findings are practically relevant for decision-makers and policymakers involved in restructuring strategies. Considering the increasing pressure on organizations to strategically rethink and adapt their operations in response to ever-changing and competing demands (Lewis, 2000; Miron-Spektor et al., 2018), especially after negative experiences with private providers (e.g., Becker et al., 2015), disentangling reinternalization is key. Such work not only provides a procedural blueprint for the future but also raises awareness of the perhaps unintended consequences of these decisions early on while clarifying the relevance of the measurement apparatus in this process. It also promotes reflective management, better-equipping organizations to facilitate a paradox mindset and effectively navigate tensions.

Limitations and future research avenues First, because we sought to identify overarching patterns with a qualitative design, the generalizability of our findings may be restricted; however, it was addressed by including a heterogeneous dataset (Eisenhardt and Graebner, 2007). This approach cannot do justice to individual cases. Further analyses could zoom in on these cases to more deeply examine the interrelationships and contextual elements through targeted process tracing and account for their institutional heterogeneity. This may also reveal whether the kinds of impetus for reinternalization, being voluntarily or compulsorily induced, impact the level and handling of tension (e.g., through legislative changes). When tracking such processes, it is necessary to recall that paradoxes evolve in iteration, not linear sequences (Jarzabkowski and Lê, 2017).

Second, while the focus was on reinternalization, comparatively few administrative staff participated as interviewees; therefore, counter perspectives may not be pronounced. This also means that our impressions are based on a limited number of interviewees and documents. While we had sufficient material to derive our scenarios and solid conclusions, other employees experiencing and dealing with reinternalization differently cannot be ruled out (cf. Hahn and Knight, 2021). For consistency, future studies should widen the dataset, deepen the administrative viewpoint, and, to further

fill the gap in empirical multilevel paradox research (Andriopoulos and Gotsi, 2017), distinguish between vertical and horizontal integration, upper-management and front-line levels and degrees of seniority to factor in different levels of agency when facing paradoxes (Berti and Simpson, 2021).

Third, with development and housing, the service types involved were different. While this strengthens the design, as it increases variation in the commerciality of the elements (see Brown and Potoski, 2005), it also involves different service demands. For instance, in an economic development case, the focus must be on satisfying local entrepreneurs; however, in the case of housing, the focus is on tenants' satisfaction, which could open different areas of tension, especially those related to paradoxes of belonging and performing. Future research should more closely investigate the effects of different service types.

Fourth, the comparability of cases (e.g., corporate size) may be limited. It is likely that 800 employees have a different power balance or even disruptive power when reinternalized than when 15 employees are. However, we perceive our diverse dataset as a strength of the study because detecting three scenarios in an analysis that includes 19 heterogeneous cases points to a level of universality evident across conditions (no discernible differences were found between case characteristics regarding paradox dynamics). Additionally, we gathered the full sample that met the selection criteria and had accessible data. Nonetheless, future research should be conducted to systematically account for contextualities.

Fifth, the identified tensions fulfilled the paradoxes' characteristics of contradictoriness and interdependence mentioned by Schad et al. (2016). The extent to which they were also persistent could not be conclusively clarified in the cases recently reinternalized. On the outcome side, further exploration is needed on whether navigating tensions can strengthen existing patterns within a municipality or destabilize them in fruitful or destructive ways. Periods of great organizational uncertainty can weaken the core administration's ability to proactively engage with impending change (Jay, 2013). Thus, to make a solid statement about long-term shifts in paradoxical reactions beyond initial uncertainties, it is worth reflecting on the case developments with some distance through supplementary studies. Such work could break down the multiple nuances of

defensive and proactive paradox responses in micro everyday actions over time (e.g., Jarzabkowski and Lê, 2017); however, for this research, this categorization was most purposeful.

Finally, further investigation is needed on the extent to which the tensions exhibited here may be attributed to other disparate logics that arise when groups of different institutional origins clash, which are not necessarily related to elements of private law; for example, tensions created by a unity-diversity paradox (Ospina and Saz-Carranza, 2010). Correspondingly, as several interviewees highlighted the bidirectional impact of isolation on smooth reinternalization and boundary renegotiation, the effect of COVID-19 on tension dynamics is another promising aspect to explore (cf. Fischer et al., 2022).

4.7. Conclusion

This study broadens our understanding of the ontology of paradox by adding nuance to the measurement apparatus, highlighting three scenarios of how individuals experience and cope with tensions vis-à-vis their organization in England and Germany. The unfolding of individual tensions inherent in the process of reinternalization post-corporatization, primarily of role and goal incongruence, is recursively linked to the adaptivity of the reinternalizing organization. Although local governments may opt for reinternalization not only as a delivery alternative but as a radical departure from private law, it can promote the influx of private sector logic and initiate change within bureaucracies, albeit with limited transformative power, especially in Germany. We deduce that the process of (re)integration following earlier differentiation, illustrated as the inward dynamics of service provision, inevitably leaves traces in organizations' self-conception, prompting them to recalibrate their boundaries. Organizations face surfacing tensions, with leadership and employees, however, having mutual leverage on which direction this takes. These are aspects that are crucial for early cost-benefit calculation of reform decisions.

5. Concluding remarks

5.1. Contributions and key findings

This dissertation examined corporatization from various theoretical perspectives and analyzed it from a ‘pragmatist’ stance across English and German local government contexts using a mixed methods approach. In this context, all chapters add to corporatization research. Below, Sections 5.1.1 and 5.1.2 outline the major contributions and key findings of Chapters 2 through 4, how each chapter addresses its own more specific research questions (presented in Chapter 1), and, finally, how the findings of these chapters answer the dissertation’s overarching question: Are we actually witnessing a resurgence of the state that is causing the pendulum to swing in favor of the local public sector?

5.1.1. Causes, dynamics, and consequences of corporatization

The main contribution of Chapter 2 lies in its nuanced approach to theorizing corporatization, made possible by the construction of a comprehensive index that captures the intensity of corporatization based on an original, longitudinal dataset. This leads us to two important aspects that contribute to the literature on corporatization. First, this index has allowed us to trace the long-term evolution of corporatization and to disaggregate its intricacy. The descriptive analysis shows that corporate intensity in Germany has not declined in recent decades, but rather that its increase is due to the growing complexity of indirect rather than direct shareholdings with up to six levels of ownership.

Second, this chapter adopted a differentiated theoretical approach that examined the validity of determinants as a function of the level and depth of corporatization and revealed the extent to which drivers—in this case economic or political transaction cost arguments—differ with respect to the degree of formal autonomy of corporatized entities. This allowed us to answer the research question that formed the basis of Chapter

2: Why do local governments create and reform public service companies, given their uncertain economic benefits and potential damage to service transparency and accountability? According to the regression analysis, local governments reform their companies by increasing corporatization intensity as they face long-term financial constraints, economically minded mayors, and institutional measures to increase opacity and accountability in company activities. Political factors, however, prove more significant for lower levels of ownership.

This underscores the relevance of the extended TCF (cf. Epstein and O'Halloran, 1999), which includes both political as well as economic aspects and allows us to better understand not only what causes corporatization, but also how the drivers differ depending on whether direct or indirect public ownership is involved. This means not only that the differentiated approach proposed is necessary for a better understanding of corporatization, but also that corporatization is much more than a rational auxiliary for increasing efficiency in times of austerity.

Chapter 3 makes two important contributions. Using a tension lens, it first uncovers factors underlying company closure and reinternalization, shifting the predominant empirical focus from company initiation and sustenance to cessation (Andrews, 2022). Descriptive analysis shows that reinternalization, although less frequently used, remains a viable alternative for service delivery, highlighting its practical relevance and neglected research potential. Second, Chapter 3 introduces machine learning to local government decision-making (Anastasopoulos and Whitford, 2019) using a unique dataset of terminated companies in a cross-national setting. It thus bridges the gap between corporatization and organizational research, which has long sought explanations for how organizations live and die. Chapter 3 extends organizational research by testing its assumptions in the empirical setting of LGCs and addressing the specific tensions LGCs face. It complements single-country studies of organizational survival through its cross-national approach (Keller et al., 2017). It adds a quantitative component to extant qualitative studies that have used a tension lens (cf. Andriopoulos and Gotsi, 2017), and suggests a way to deal with the difficulties of operationalizing tensions by identifying key factors that serve as proxies for tension. It demonstrates that, while a variant outside the core administration is preferred as a future delivery model in the event of

termination, reinternalizations are a well-established alternative. This is especially true for older, very large, English, housing service, and balanced ownership companies.

Chapter 3 responds to the following question: What impact do tensions inherent in city-owned companies have on whether a city government chooses or refuses to reinternalize previously corporatized functions? Specifically, it answers this question by showing that macrosystemic tensions represented by the type of service, age, and national context of a company influence the reinternalization decisions of local governments. Conversely, microsystemic tensions related to ownership and size were found to be less important. This chapter thus translates tensions to the systemic level by distinguishing between macro- and microsystemic effects on termination dynamics (Jarzabkowski et al., 2013). It also emphasizes that public companies may experience different tensions than private companies, which are often studied in terms of their age and size (Abatecola et al., 2012). Therefore, caution is needed and assumptions for the private-sector environment should not be applied one-to-one to public-sector organizations.

Similar to Chapter 3, Chapter 4 contributes to extant literature by challenging the perspective of previous studies, as it shifts focus from the initiation and sustenance to the aftermath of corporatization. This chapter centered on the following research question: How do individuals experience and cope with tensions, vis-à-vis the organizational actions taken during reinternalization from former LGCs? A paradox lens was used to examine the previously overlooked impact of the erosion of organizational boundaries—not within LGCs, as is commonly explored, but in the case of their reinternalization into the local government's core administration. By presenting three scenarios elucidating how and why tensions became salient in this setting, this chapter also adds to the measurement apparatus of paradox and in doing so, further advances its ontology (e.g., Hahn and Knight, 2021). This chapter draws on an original cross-national dataset to add to the nascent landscape of international corporatization studies (Keller et al., 2021). This not only promotes cross-national learning but also increases the transferability of findings to practice through its qualitative field research design, which required face-to-face interaction with practitioners involved in reinternalization.

According to the paradox lens used in this study, local governments in both countries tended to reject entering elements and strive for alignment, with Germany having

even less transformational power at the structural level. However, there were exceptions with individual concessions, albeit at the individual rather than the organizational level. Boundary setting, framing, and allowing sufficient time helped individuals to engage with rather than block tensions. This manifested itself structurally (e.g., by aligning core administration with established corporate policies) and at the employee level (e.g., by maintaining certain work ethics or practices). These findings clarify that the reform momentum of corporatization does not necessarily end when a company is terminated. Rather, it continues in alternative forms of service delivery. Even if it reverts to purely in-house delivery, elements that enter surface latent tensions and can lead to changes that need to be carefully navigated. Although this has relatively low transformational potential, one should not underestimate the incremental power of change in group dynamics through identities, self-understandings, and small-scale concessions, because it can manifest and scale up over the long term, and, in the aggregate, make a significant difference (e.g., Jarzabkowski et al., 2013).

Section 5.1.2 shows how these results can be linked and give substance to the publicness debate. Subsequently, all aspects are brought together to answer the overarching research question of this dissertation.

5.1.2. A gradual model of publicness

In answering their activating research questions, Chapters 2 through 4 deepened understandings of the pendulum swing, how it differs across two European countries with different reform trajectories, and what the compensation mechanisms look like when the ‘pendulum’ happens to swing back. This section explores how, together, these findings answer the dissertation’s overarching question: Are we actually witnessing a resurgence of the state that is causing the pendulum to swing in favor of the local public sector?

The sensitivity of the factors influencing the level of LGC ownership in Chapter 2 demonstrate that ownership publicness remains a non-obsolete factor in explaining decision behavior. However, this also implies a sensitivity of ownership publicness to the parentage of the company, particularly for a local government’s subsidiaries and second-tier subsidiaries. At the same time, the volatile phases of the proposed index within the study period (1997–2017, see Figure 2.2) show that the desire for influence can become

stronger or weaker through formal ownership. Chapter 2 thus illustrates, through the fact that drivers respond to the ownership-based index, that local actors view formal ownership as a vehicle for change. Thus, to understand the outward and inward dynamics of service delivery at the local level one must necessarily understand ownership publicness. However, these findings do not preclude the possibility that in terms of the dimensional model (Bozeman and Bretschneider, 1994), influence can also be exerted through channels other than formal ownership.

In Chapter 3, the low model relevance of formal ownership to termination decisions, as opposed to, for example, the type of service and the age of a company, confirms this; suggests that other forces control decision behavior; and clarifies that influence extends beyond formal ownership. The low model relevance of formal ownership on resourcing decisions, as shown in Chapter 3, indicates that public authorities have the leverage to counteract undesirable developments of their LGCs regardless of their level of formal ownership, emphasizing the need for a dimensional model.

Meanwhile, Chapter 4 shows that even when full formal ownership is restored, the emerging tensions between logics (or the level of control publicness) can exert influence through structural constraints or individual concessions—in particular, the agent's ability to effect small-scale changes is informed by private logics within the bureaucracy following reinternalization.

In sum, since the index in Chapter 2 is based on corporate stakes, we can safely assume that ownership publicness decreases as we move from direct to indirect ownership. The question arises, however, whether control publicness decreases when a conscious decision is made to corporatize to lower levels of ownership for reasons other than efficiency since cranking up this intricate web of shareholdings increases complexity and thus tends to lead to inefficiencies. While Chapter 2 emphasizes the importance of legal ownership, Chapters 3 and 4 highlight the need for additional explanations, confirming the relevance of including control publicness in the dimensional model. Moreover, the results demonstrate that the dimensional model has its limitation in that it does not adequately account for the dynamics of control publicness even though, as noted above, it can change over time and along the structure.

This leads us to propose that a ‘gradual control publicness’ exists in corporatization that accounts for structural (along the corporate unit’s lineage) and temporal dynamics (over the corporatized unit’s life cycle). Therefore, to understand an LGC constitution, concepts must be inclusive of and complementary with, rather than distinct from, legal ownership—or, in more legalistic terms, they must factor in *de facto* rather than *de jure* publicness.

As a result, although public (equity, efficacy, collectivism) and private (competition, monetarization, individualism) objectives are commonly viewed as opposed, they are netted together in hybrid organizational forms where ownership and control are gradual.

Thus, the answer to the overarching research question about the possible pendulum swing depends on how corporatization is understood and where the sectoral boundary is drawn. For example, it depends on whether corporatization is understood as a deliberate withdrawal of public bureaucracy (Valkama, 2013, p. 87) from the market or as a strategy for more government control. The intent of corporatization does not necessarily depend on the number of shareholdings, but on the control publicness; even with full public ownership, the motivation behind the operation may remain unclear (cf. McDonald, 2014). If corporatization is understood as a strategy favoring greater privatization, it could be framed as a tendency toward the greater erosion of the state. This emphasizes the importance of being clear about motives when evaluating corporatization as a legitimate and viable public management strategy.

According to McDonald (2014), the extent to which the public sector is disengaged or intertwined with alternative doctrines within companies can vary widely, not necessarily depending on the degree of formal ownership, but on other parameters for which control publicness appears to be an appropriate complement. According to the findings of Chapter 4, however, this interconnectedness may manifest itself not only in LGCs but also in their return to core administrations. This is an important aspect that is often overlooked. Still, as demonstrated in Chapter 4, local governments emphasize demarcation. This may be expressed structurally by aligning core administration with established corporate policies, or at the employee level, by maintaining certain work ethics or practices. The extent to which such alignment occurs is also determined by the compensatory ac-

tions of the respective actors; that is, how they construct and deal with disparate logics and the resulting tensions.

LGCs are clearly not driven solely by the market or the state. Rather, this institutional arrangement is characterized by the existence of constant tension between different elements in the context of highly complex target systems. Given that tensions are primarily socially constructed (Hatch and Schultz, 1997), conceptualizing ‘market’ or ‘state’ can also be considered as an attempt to seek order in the face of complexity and ambiguity. Corporatization could be defined as a process of institutionalization in which the two poles of market and state, each encompassing a distinct set of doctrines, remain intractable. Constant negotiation is necessary for organizations and societies to find a middle ground.

Often, current state legitimacy compels a government to take a stronger stance and insist on sectoral boundaries. This is closely related to citizens’ confidence in the government’s competence, especially in comparison to the private sector. Negative developments in the private sector that are visible and noticeable to the public increase public demand for government intervention, such as crisis management, as mentioned earlier. Based on this research, we can conclude that the relationship between the public and the private has changed significantly in recent decades as social and political complexity has increased. In the medium and long terms, corporatization risks increasing this complexity even further, especially at the lower levels of ownership, thus limiting democratic control. However, it is unclear whether this is merely a fear or a true possibility.

Numerous countermeasures, such as those highlighted in this dissertation, have been implemented over time, especially to increase control publicness; however, this primarily demonstrates the vivid negotiation process between “contradictory, yet interrelated” (W. K. Smith and Lewis, 2011, p. 382) poles that takes place simultaneously and persistently. This is consistent with Dewey’s early conceptualization of “public and private as fluid categories constructed in social interaction and subject to historical transformation” (Asen, 2003, p. 176). Nonetheless, organizations must strike a balance between the two poles to remain in operation. Scholars must disentangle the various configurations of doctrines at their intersections, generally attributed to the so-called market or the state, including the implications associated with them. Pursuing the concept of

‘gradual control ownership’ could be a useful tool in this regard; eventually, it could inform the publicness puzzle (Bozeman and Bretschneider, 1994).

How do these findings answer the overarching research question? Chapter 2 suggests that corporatization in Germany increased during the period under study. At the same time, the shift in corporatization toward indirect ownership reduced ownership publicness, which is, of course, still significantly higher than in the case of full privatization. The extent to which this also suggests a reduction in control publicness should be investigated in further studies. Nevertheless, this documented tendency cautiously suggests a deliberate departure from state principles while rejecting the free market. However, Chapter 2 also highlighted the need and effectiveness of regulatory state measures through rules or normative demands (cf. Hood et al., 2000) such as corporate governance codes. It can, therefore, be assumed that control publicness is likely to increase if local governments decide to apply these measures more widely.

Against this background, a pendulum swing can thus be confirmed, at least as far as increased ownership publicness is concerned, which, however, must be further differentiated due to the slight countermovement halfway down the line. Verifying possible countermovements in terms of control publicness due to a proliferating “audit society” (Wedlin and Sahlin, 2017, p. 115) remains a task for future research.

Chapter 3 showed that a swing toward full ownership publicness and what appears to be full government control, in this case in the form of reinternalization, is less commonly used than an alternative mode of service delivery after company termination. This essentially confirms the results of Chapter 2, which indicate that corporatization is intensifying rather than declining. However, the analyzed tensions that can lead to reinternalization decisions mainly relate to specific service types. In this respect, differentiation is also necessary. The pendulum swings more toward the state with regard to a specific public task portfolio.

The ways in which individuals and organizations experience and cope with the implementation of reinternalization, as illustrated in the scenarios in Chapter 4, suggest that control publicness can vary even with full ownership publicness. The transfer of tasks and personnel after corporatization can further manifest the business-like logics within a bureaucracy. This was less evident in Germany than in England, where structural and

cultural adjustments within local government under private law principles were the exception but possible. In this respect, the findings of Chapter 4 do not confirm a mere movement toward the state, but challenge the notion of the pendulum swing as a periodic motion between poles that needs to be re-evaluated in terms of its self-understanding (cf. Cumbers and Becker, 2018), similar to the publicness debate, which has already recognized that organizations exist in a network of influential forces that make them hybrid and evolving (e.g., Bruton et al., 2015).

Taken together, these findings respond to the overarching question. Based on a limited study with a limited dataset, these findings can only be complementary. What can be deduced is, first, that the pendulum has always been in motion. Second, we see, if anything, a slight service-related, country-specific movement toward core government entities; however, movement “(half-way back) to private law” (Wollmann and Marcou, 2010, p. 193) has been more pronounced. Whether this includes the resurgence of the state requires a conclusive definition of the state and depends on countries’ clear-cut allocation of the conception of market and state, insights that the data in this dissertation could not conclusively provide. While the poles of the pendulum and its swing might serve as analytical means in this context, in reality, they have become less distinct (though perhaps only temporarily). For research, both must be recalibrated; as set out above, publicness is multidimensional and has acted and shaped organizations in various ways, even in the case of reinternalization.

Therefore, other parameters must be clarified to advance the answer to the overarching question of this dissertation, namely: What country? What portfolio of public functions? What dimension of publicness? More government through ownership, control, or both? Is the notion of oscillating sustainable? As Saz-Carranza and Vernis (2006, p. 422) note in their critique of linear process models, affirming the iterative dynamics of unfolding paradox (Jarzabkowski and Lê, 2017):

The network takes incremental steps towards a closer atmosphere, in a back-and-forth risk-taking reciprocal pendulum, which resembles Axelrod (1981)’s tit-for-tat, where mutual expectations evolve and procedures are institutionalised (Larson, 1992).

This can also apply to the “pluralist state’s” (Osborne, 2010, p. 191) constant process of negotiation between the seemingly opposing forces of market and state, from

which emerges a variety of hybrid forms facing constant mutation. Both LGCs *and* their implemented reversals must be understood as one manifestation.

5.2. Implications and limitations

While Chapters 2 through 4 discuss the individual limitations of each part of the study and advise on potential scopes for future studies, this chapter reflects more broadly on the overall approach of the dissertation, opening up wider avenues for future research. Specifically, it focuses on the key aspects of capturing corporatization from theoretical, methodological, and empirical perspectives.

5.2.1. Theorizing corporatization

The theoretical perspectives used in this dissertation have proven invaluable in their totality to better understand the ambiguity and complexity of corporatization. The theory of corporatization, as demonstrated, is dynamic and has evolved over time as research has expanded and circumstances have changed. The evolution of classical economics into new institutional economics, as seen in the (extended) transaction cost framework, or the incorporation of control publicness into the dimensional model, are vivid examples of this unsettled state. Similarly, the tension lens and the closely related paradox lens have witnessed significant growth and conceptual differentiation in recent decades, owing to the need to theoretically represent an “increasingly intricate, ambiguous, and ever-changing world” (Lewis, 2000, p. 761).

In this context, multi-perspective approaches are crucial in their complementarity, especially when research claims to proceed phenomenologically. At the same time, a clearly defined research objective can only be a rudimentary complement. Certainly, there are several ways to deepen the comprehensive understanding of corporatization by exploring aspects of the same theory or by turning to other theories. Some particularly promising avenues for further studies that were beyond this dissertation’s scope are listed below.

While the focus of Chapter 2 was to use the TCF as an explanatory framework to better understand reform decisions along structural and temporal dynamics, a closer exam-

ination of transaction characteristics can provide crucial information on which types of services are suitable for corporatization, thereby addressing a fundamental open question. Corporatization has long been seen as a panacea for all types of improvements, although the extent to which all services fit this purpose has not been conclusively determined. However, the first decades of experience and the various findings of this dissertation indicate that not all services benefit from corporatization. Although service characteristics have been found to be crucial in reform decisions, there is little empirical evidence on their influence. The importance of service characteristics in service delivery choice has long been controversial in the context of TCF, and Andrews (2022) also notes a considerable gap in LGC research. Chapter 3 has shown that, in practice, the type of service has a significant impact on the decision-making behavior of local governments, at least in the event of company termination. This is evidenced by the fact that housing LCGs were likely to be brought back into the control of local authorities. This suggests that there may be service-related concerns with private-law provision. At the same time, the findings in Chapter 4 raise the question of whether there are not only appropriate services but also optimal sizes for corporatized entities to survive. Further research is urgently needed in this area, which could clearly reveal how specific transaction characteristics of former corporations influence the process of their return to core administration. Future studies can examine whether there is a pattern of economic development to return to a corporatized entity at the next opportunity after reinternalization because political conditions have changed or whether this has proven impractical due to persistent logical conflicts, or vice versa. Moreover, future studies need to examine whether there are differences between companies that are brought into the core administration for the first time and those that are brought back.

In addition, previous studies have mostly overlooked the fact that transaction costs increased due not only to planning and monitoring but also to restructuring in the event of a company's dissolution, merger, or reinternalization. In such situations, outside consultants are often hired. Renegotiations may occur, remaining assets may be divided, and employees may be repositioned. Thus, transaction costs must be considered at each stage of the process (corporate cycle). In addition, they should be dynamic, meaning they must be constantly reconsidered to reflect changing circumstances or re-

quirements as markets change, citizen preferences change and service demands change. This includes any additional costs incurred when the transaction is terminated. This underscores the importance of local governments retaining some capacity to reinternalize previously corporatized work.

As explained in Chapter 2, transaction characteristics, such as uncertainty or asset specificity, are assumed to increase costs, while the frequency of the transaction—that is, whether it is a one-time or repeated exchange—reduces costs because greater transaction frequency leads to greater economies of scale and synergies (Coase, 2013; Williamson, 1996).

In other words, the more frequent the transaction, the less costly it is to design institutional arrangements to handle and organize it. This implies that a local government with a high level of expertise in corporatization could implement additional LGCs more cost-effectively. Accordingly, future research should pay more attention to individual corporate history as a determinant of service delivery dynamics.

In this respect, publicness holds great—yet largely untapped—potential to more adequately grasp the public-private nexus at the local level embodied in corporatization, especially by differentiating toward ‘gradual control publicness,’ prompting research to account for both its structural and temporal dynamics.

Therefore, future studies could examine the understudied composition of companies’ supervisory boards, to understand how control publicness unfolds and whether different versions of control publicness are, at least temporarily, at odds with each other.

Furthermore, the distinction between ‘progressive’ and ‘neoliberal’ corporatization (McDonald, 2014) emphasizes the importance of examining the motivations for corporatization. Corporatized entities, for example, may rely to some extent on business-like forms of corporate governance. This, in turn, may affect the drivers of corporatization and lead to systemic tensions, as discussed in Chapters 2 and 3, both within LGCs and in the context of their reinternalization. Similarly, future research must seek to better understand why some corporatized entities become relatively progressive while others are more neoliberal, and what this means for the dynamics of control publicness.

Bozeman and Moulton (2011) have addressed this analytical need with their heuristic of ‘integrative publicness’, melding empirical and normative publicness. In ‘empirical

publicness,' they include the mix of political and economic authority discussed in this dissertation, according to which an organization can be positioned on a grid (see, also Bozeman, 1987). Meanwhile, 'normative publicness' identifies the extent to which public value is infused or prescribed into the organization regardless of the provider's origin. This may serve as an interesting perspective with which to study not only LGCs but also their consequences. Future studies could accordingly focus on determining how control publicness evolves after reinternalization, how stable defensive responses are, how stable proactive responses are, and to what extent there are also retarding phases following a synthesis back to defensive behavior in accordance with paradox theory (Jarzabkowski et al., 2013; W. K. Smith and Lewis, 2011).

What has become clear is that *de facto* publicness is a product of balancing varying dimensions that goes far beyond formal autonomy as defined in the legal basis of an LGC. While the research potential for control publicness and its gradual variants has now been strongly highlighted, funding publicness has remained in the background. However, as part of complex influence structures, LGCs often rely on diverse funding streams at the EU or regional levels, as also illustrated in Chapter 1.

Surprisingly, while Europeanization at the national level has received strong empirical attention, this is hardly the case for the local level (e.g., Gröbe et al., 2022). It was not the focus of this dissertation's individual empirical questions and designs in Chapters 2 through 4 to address this void, but it is worth noting that a lack of data has been revealed during the analysis, as sound information on funding flows at the English and German local levels is simply unavailable. Thus, there is an enormous empirical field to explore, both in terms of the interplay between funding publicness and control publicness and its impact on LGCs' operations, and, as noted in Chapter 3, in terms of paradox theory, which takes up a similar problem with its aid institution paradox; namely the extent to which funding ultimately undermines an organization's ability to help itself (Fleming et al., 2021).

In times of crisis, such as the COVID-19 pandemic and its aftermath, the debate on publicness resurfaces, and the vulnerability of the private sector compared to the stability of the state is discussed. It is important to examine the impact of the crisis on LGCs and its relationship to the overall resilience and liquidity of local government,

as well as the confidence of citizens and small and medium enterprises in institutions. This could clarify whether LGCs respond to market fluctuations in a semi-stable or potentially vulnerable manner in order to perform essential public service functions, or whether the inherent tensions of LGCs may be experienced and processed differently in times of crisis. As shown in Chapter 2, the repercussions of the 2008 financial crisis on the dynamics of corporatization provide preliminary evidence. Again, the question may not be whether to corporatize, but rather how, taking into account the appropriateness of particular services. Future studies that establish connections to the literature on crisis management can clarify this question.

Depending on how corporatization is defined, several new areas of research associated with the organizational literature also emerge. For example, following the argument of Valkama (2013) and considering corporatization as an innovation, a stronger connection with organizational innovation or collaborative innovation literature (Hartley et al., 2013; Torfing, 2019) seems promising. Assuming that we have entered a post-NPM era (T. Christensen and Lægveid, 2011b), future studies can examine how subsequent paradigms of public management, such as New Public Governance (Osborne, 2010), are reflected in corporate management and practice, and whether and how LGCs resort to more innovative measures, such as agile or collaborative ones, to adapt to paradigmatic change. In this regard, future research must also address the question of whether or not post-corporatization reinternalization represents a type of organizational innovation, serving as a crucial procedural blueprint for future events.

Finally, another question that connects the literature on TCF, innovation, and publicness is the extent to which the digitalization of work processes and the associated changes in communication activities reduce or increase transaction costs within LGCs and how this affects gradual control publicness. As digitalization progresses, the de facto boundaries of an organization shift in space and time (Fountain, 2004). Therefore, digital innovations have the potential to significantly reduce the time and cost of processing and transmitting information. They also reduce the need for costly transactional control or coordination through vertical integration. Thus, scholars would do well to test whether excessive digitalization promotes outward service delivery, with as yet undetermined implications for control publicness, the positioning of LGCs in the tension

between promoting open government and protecting privacy, and the role of government technology start-ups (GovTechs) in shaping this process.

5.2.2. Methods and design

In terms of methodology, the mixed-methods approach used in this dissertation has revealed its synergistic value by allowing for a comprehensive phenomenological understanding without compromising analytical depth (Lieberman, 2005). This approach aimed to thoroughly capture the dynamics of the corporatization life cycle from its inception to its termination. However, it has become evident that this understanding is insufficient and that the implemented reversal of corporatization into core administration must also be considered as part of the cycle. This was accomplished by dividing the analysis into three steps based on partially independent multilevel datasets. This enabled the collection of a large amount of empirical data. The mixed-methods approach, however, could be pursued in a more “nested” manner (Lieberman, 2005, p. 435) by consistently building on datasets. For example, individual companies from the dataset used in Chapter 2 could be employed for in-depth case studies after the regression analysis. However, since the objective of Chapter 3 was to conduct a robust analysis, the selection of companies was based more on possible counterparts in England; this ultimately required the creation of an entirely new dataset, which eventually proved valuable.

The dataset used in Chapter 2 can be employed by future studies for deeper quantitative analysis as well: for example, to examine whether portfolio streamlining (mergers or dissolutions in favor of less complex subsidiary structures) has actually resulted in increased coordination capabilities. This could be accomplished by calculating a networking ratio (number of linkages related to one corporatized unit within the ‘web’ of shareholdings) for each of the 34 NRW cities and examining changes over the last 20 years and their effects on administrative intensity (Andrews et al., 2020).

The nuanced data of Chapter 2 could also be used to investigate whether the reasons for closing and reinternalizing companies differ depending on the depth of corporatization. Case-sensitive analyses must thoroughly examine whether shifts toward these lower levels are motivated, for instance, by managers pursuing “bureau-shaping” (Schröter et al., 2019, p. 208) due to less control publicness or by politicians pursuing

“political rent-seeking” (Voorn, 2022, p. 4), in a greater distance from the opposition, allowing the increased transaction costs to be justified from a personal perspective.

This study’s research design also paves the way for future replication studies (Jilke et al., 2016; King, 1995). In fact, all empirical chapters should be replicated because, while overarching corporate dynamics have been identified, this does not rule out other contextualities. The MDSD of Chapters 3 and 4, which included England and Germany and the wide spatial dispersion of cases within countries, attempted to find the greatest possible institutional heterogeneity within the European state structure and reform trajectory to increase the robustness of the results. While some believe that overall reform trends have made European countries more aligned, structural differences at the state level may constrain management decisions for or against corporatization implementation. Therefore, future studies should focus more on the particular system context. Different legal uses of limited liability companies may also affect the design of corporatization. As previously stated, the ‘LGCs’ in this dissertation were chosen to analytically capture corporatization across two national contexts. Thus, future studies on corporatization must thoroughly examine the potential variation in constraints and opportunities between legal systems and between degrees of central government discretion (cf. funding publicness).

Furthermore, future research needs to explore corporatization and related services and levels of government not only in other European countries but also in non-European countries. For example, it would be interesting to examine how logical conflicts differ from the local level in the case of a shift to the state level. This would shed light on whether the state makes efforts to demarcate boundaries or whether erosion has already occurred. It would also be interesting to examine whether possible differences can be explained by different levels of proximity according to the ‘proximity principle’ (Reese, 2018). Similar to the local level, future research must address the significant lack of longitudinal studies that trace long-term corporate dynamics at the state level. As shown in Chapter 4, actor-level dynamics were surprisingly similar in both countries, confirming research that basic human behaviors tend to be similar at the micro level. A closer look at the literature on public service motivation or human resource management might help to better understand these differences at several levels.

In addition to the different contexts at the national and state levels, all of the empirical analyses presented in Chapters 2 through 4 should be replicated in private sector settings, including contracting out, to more systematically and reliably uncover potential differences and to substantiate claims about the transferability of private firm theory to the public sector. Following Rainey and Bozeman (2000), such studies can further challenge the validity of the different conceptualizations of public and private organizations.

Corporatization research can be further advanced if future studies use machine learning more broadly but also complementary methods. One of these, as mentioned earlier, is small-N case study research that moves from inter-case to intra-case comparison; for example, in the form of causal process tracing of a sequence of events over time (Levy, 2008). This could be accomplished by following a case through its entire corporate cycle, from initiation to reinternalization, or by following its return process in the long term by identifying the precise timing of “critical junctures and tipping points” (Tarrow, 1995, p. 474). However, when doing so, one should consider that paradoxes evolve iteratively, which necessitates going back and forth in time analytically rather than sequentially (Jarzabkowski and Lê, 2017).

In this regard, experimental designs, such as vignette studies, could be used to examine how rooted administrative staff and reinternalized staff differ in their evaluation of situations (Rainey and Bozeman, 2000), especially in times of crisis, or how control publicness is expressed differently among LGC board members in seemingly tense situations. While vignettes are becoming an increasingly popular way to methodically address tensions (e.g., Jarzabkowski et al., 2013; Michaud, 2014), quantitative studies of organizational tensions are limited. A proposal for operationalizing tensions was made in Chapters 3 and 4 using seven tension-proxying factors. Although this is an attempt to fill a gap, empirical research examining tensions should shift its analyses to the systemic level to keep pace with major theoretical claims and validate them across cases (Jarzabkowski et al., 2019).

Finally, most empirical data used in this dissertation were collected manually. While these data certainly contribute significantly to existing empirical evidence on corporatization, they also highlight the insufficient data landscape. Moving forward, datasets

should be expanded; notably, this can stimulate hypothesis testing. Although the validity of this study's results can be verified using the developed database, validity could be further enhanced by a larger set of automatically collected data, such as potentially standardized and digitized annual investment reports from municipal databases. This data expansion would particularly benefit the random forest algorithm used in Chapter 3, although the algorithm is adequately strong with the dataset used in this study (Breiman et al., 2017). Although controversial, there are now several examples of how administrative data can be published through Open Data portals while protecting citizen privacy through encryption and blockchain technology (e.g., Ajuntament de Barcelona, 2022).

Therefore, research must not only continue to investigate the dynamics of corporatization from a theoretical point of view but also create the long overdue empirical data basis for it in a very practical way. On that note, the progressive digitalization of public administration is not only an 'ends' but also a 'means': It can lay the foundation for more robust future findings to the benefit of research and practice.

5.3. Conclusion and outlook

This dissertation aims to contribute to the resolution of some of contemporary history's perplexing questions. The fact that this study raised a number of follow-up questions, as outlined in Sections 5.1 and 5.2, confirms its timeliness and the enormous need for comprehensive future research on the causes and consequences of corporatization. However, researchers must be mindful of the controversies, overlaps, and constant reconfigurations in order to effectively account for socioeconomic developments and thereby provide the framework for meaningful and responsible local governance. Testing and refining the concept of 'gradual control ownership' along empirical and normative dimensions may serve as a useful tool for future sensitivity analyses.

Although there is renewed research interest in corporatization, its governance, and its performance, empirical knowledge about its implications for core government entities or its value for customers and taxpayers is limited. In contrast, compared to scholars of public management, urban planning scholars often ignore the internal, typically con-

tentious processes that precede the corollaries of private involvement in public space at the community level (Ho et al., 2021; Leclercq et al., 2020). Future studies must therefore transcend the disciplinary boundaries of public administration and management and engage more with urban, economic, and political scholarship. Only on this basis can sound recommendations for action be made that enable decision-makers to factor in far-reaching institutional and societal implications, including accountability and legitimacy.

Although the question of *whether* and *how* to corporatize may be a pragmatic one, it also entails further questions, such as how societies understand themselves, what collective values they want to represent, and whether they believe in a strict demarcation between sectors or some form of sectoral synergy. If one continues to apply the paradox theory in this context, society will thrive over time only if it can accommodate both poles and therefore renew itself. Such renewal would continue to be dynamic and involve iterative phases of boundary marking and (re)demarcation. While this dissertation considers the extent to which both corporatization and its (accomplished) reversal might be a manifestation of this negotiation as well as practical, appropriate, and effective means of corporatization, corporatization must remain a focus of governance research.

For practitioners, this dissertation has several implications. Notably, it encourages optimism about reforms and advises against an arbitrary approach to various cost functions. It may also make practitioners more sensitive to understanding the corporatization life cycle as an organizational learning process that reflects adaptation to ever-changing circumstances. According to one of the English interviewees, they never intended to go the outward route in the longer term, but hoped that in the event of reinternalization, they would return and benefit from a leaner and more effective service, eventually finding that “what people thought they were getting back, versus the reality was very different” ((Int-13), see Table 4.1). While this is an illustrative example that encourages mutual best-practice learning among local authorities, it ultimately clarifies that the appropriate mode of service provision necessitates context-sensitive consideration by the individual municipality in terms of how it wants to position itself, what its goals are, and what options it has to achieve them. While corporatization is dependent on

the national degree of local government discretion, local governments have still often routinely practiced corporatization and widely legitimized it based on short-term incentives, rather than assessing its long-term benefits to the urban ecosystem. Chapter 2 demonstrates this clearly by revealing that the motivation for re-election and long-term debt incentivized local governments to intensify corporatization.

Indeed, corporatization has long been regarded as a panacea for underperformance or over-politicization, with insufficient attention paid to which services lend themselves to this type of transformation and to what happens in the case of reversed corporatization. As previously stated, Brown and Potoski (2003) have raised this issue of service suitability for moving provision outward. Chapter 3 shows that after some time of corporate activity, service characteristics were the most important factor that caused local governments to reconsider their sourcing decision. Thus, local governments need to see the bigger picture of the challenges and the intended and unintended consequences of de- and re-regulation/centralization within the bureaucracy. Chapter 3 evinces how company terminations occur and how reinternalization is a widely used alternative to reorganization, even if it is implemented to a lesser extent. Although the lower numbers may attest to the success of corporatization (Valkama, 2013), they may also imply that some reform decisions are being made too quickly. Indeed, as shown in Chapter 4, local governments need to consider the impact of these decisions on the community as a whole, as reorganizations are always complex and non-linear processes. According to Williamson (2007), reforms are rarely wholly beneficial because the choice between alternative delivery modes always involves decidable trade-offs; if they are undecidable (cf. Berti and Cunha, 2022), embracing ambiguities rather than leaning toward one extreme can be helpful in order to find flexible solutions in the face of an ever-changing and complex environment.

Corporatization may achieve the desired result, and elements often attributed to the private sector, such as entrepreneurial spirit or technological knowledge, are not necessarily incompatible with the public mission (Voorn, 2022). However, as with any reform, success is not guaranteed. Problems can arise when corporatization is applied arbitrarily to different cost functions or when the costs of resourcing or tense collaborations outweigh the benefits. Reinternalization can also challenge the status quo, with

local governments and their employees wielding power over whether this leads to dysfunctionality, creative forces, or both.

Therefore, practitioners must be aware of the vulnerability and permeability of reforms and plan with a wide margin of error to best prepare their local government to move outward and inward with service delivery, ideally favoring resilience to ensure fail-safe delivery. They must be responsive to citizens' interests whilst remembering that, globally, immediate local interactions are central to enabling democracy as an institutional framework and way of life (Dewey, 1991; Dewey, 2016) to secure social balance and multi-polar consensuses across persistent historical and conceptual tensions.

Notes

¹These primarily relate to so-called ‘services of general interest’ that are vital and must be provided in sufficient numbers regardless of whether this serves profitability, such as energy supply, public transport and waste management (Clifton et al., 2005).

²See the ‘Urban Agenda for the EU’ in 2016, which is the latest manifestation after the Lisbon Treaty in 2007 (Heinelt, 2017).

³The English part of the research underwent an ethics review process by the Research Ethics Committee at Oxford University. For ethical approval see Annex B.

⁴Externalized provision also includes so-called ‘contractual public-private partnerships’ (PPP). In contrast to these purely contractual PPPs, LGCs in partial private ownership—thus, part of this dissertation’s focus—are often referred to as ‘institutional PPP’ because these public-private arrangements result in an institutionalized joint venture (Andrews et al., 2015; European Commission, 2004; Wollmann and Marcou, 2010). Other conceptual variants can be found in the literature. For example, those who understand corporatization as a form of privatization, often distinguish between ‘formal privatization’ (our research subject: LGC), ‘functional privatization’ (forms of contracting out) and ‘material privatization’ (full privatization) (Röber and Schröter, 2016).

⁵Youth share: Ratio of the number of people aged below 20 to those between 20 and 65.

⁶In 2019 (after our study period), the state parliament made this requirement optional for cities where the municipal group has less budgetary relevance (Körner and Littkemann, 2020).

⁷Personnel expenditure is superior to the number of inhabitants since the latter time series shows an artificial jump related to the adjustment of the population after the German census in 2011.

⁸The observed ascending corporatization intensity is primarily driven by activities related to services of general interest, that is, in supply, transport, and waste management (see Figure A.2 in the Annex for the chart).

⁹With “bad” times, Camões and Rodrigues (2021, p. 7) refer to times of financial instability and austerity in the aftermath of the global financial crises, especially from 2011 to 2012.

¹⁰While commonly applied, the term of ‘Anglo-Saxon’ as a primary designation for English culture has lately been contested (see, e.g., Rambaran-Olm and Wade, 2022).

¹¹A recent study finds a 48% increase in corporatization intensity, which includes all directly- and indirectly-owned LGCs in 34 German cities from 1998 to 2017 (Rackwitz and Raffer, work in progress).

¹²We choose this term to clearly attribute the entering employees to the reinternalization process, although some do not return in the strictest sense because they were first hired by the LGC. The analysis factors this in.

¹³We choose the term in the UK’s sense to capture the decision-making and -implementing local authority. It should be noted that ‘council’ in Germany can refer to the elected decision-making body. In this research context, however, it serves to distinguish the organizational collective from the individual level of analysis.

¹⁴With the numbering in brackets as also referred to in the continuous text. Verbal informed consent was obtained from each interviewee for this study.

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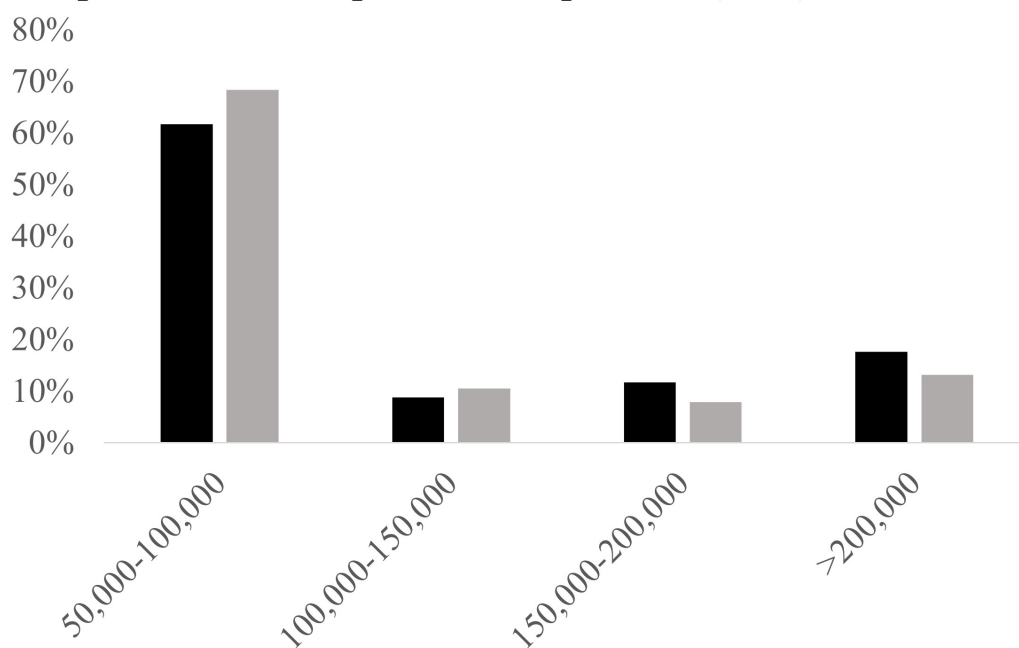
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Appendices

A. Figures and tables

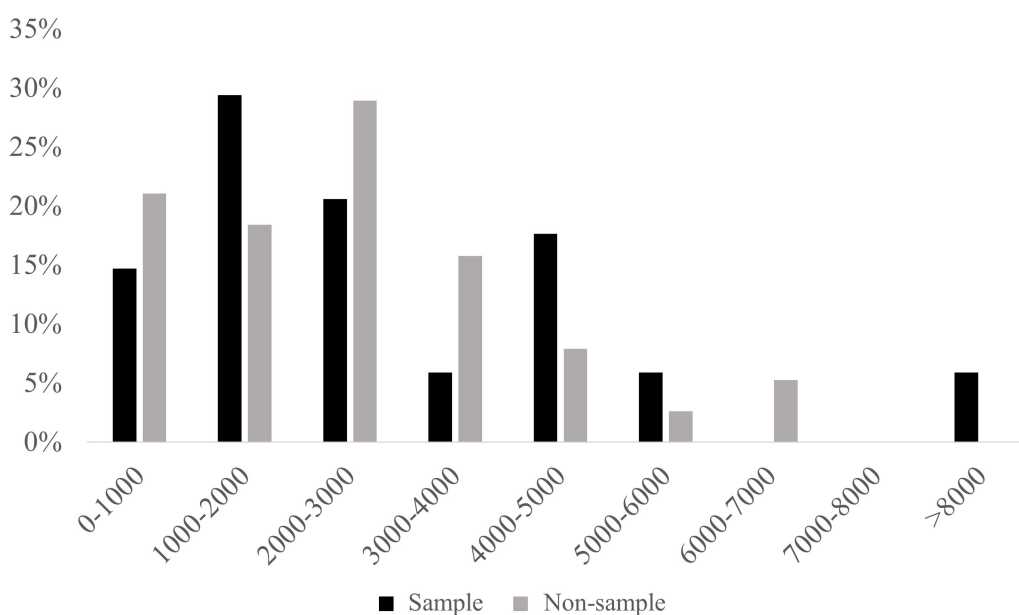
A.1. Figures

Sample and non-sample cities: Population (2017)



(a) Sample and non-sample cities: Population (2017)

Sample and non-sample cities: Debt per capita (2017)



(b) Sample and non-sample cities: Population (2017)

Figure A.1.: There are 72 cities with between 50,000 and 500,000 inhabitants in NRW. The figure compares the 34 sample cities and 38 non-sample cities by main characteristics. Overall means in population: sample = 123,386; non-sample = 113,973 / in debt per capita: sample = 2914; non-sample = 2539. Data sources: Office of statistics NRW and Wegweiser Kommune (own figure).

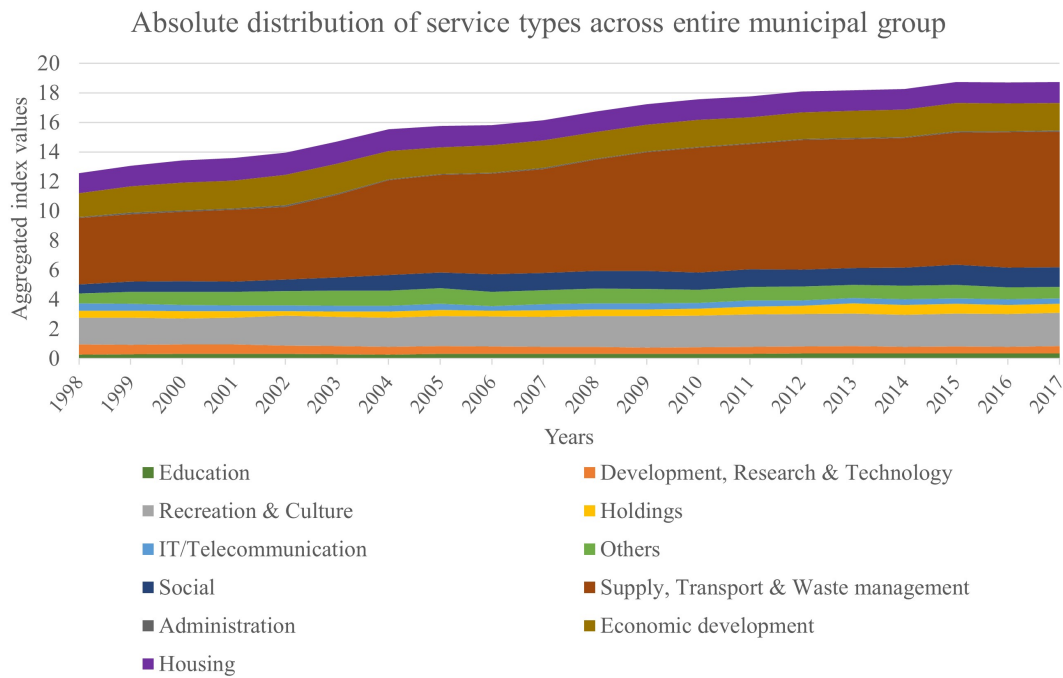


Figure A.2.: Absolute distribution of corporatization intensity according to service types based on population-weighted index data.

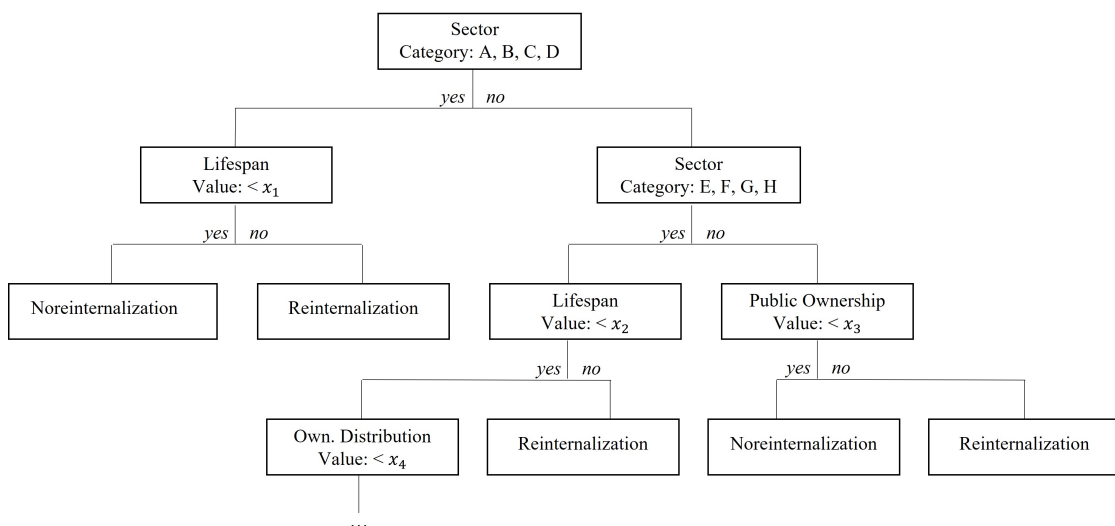


Figure A.3.: Exemplary illustration of a single decision tree as part of a random-forest model. For illustrative purposes, it is cut at decision level four. In this example, tests for making decisions are either formulated in terms of categorical or numerical variables. Categories A to H refer to the eight values of the predictor variable sector, as displayed in Table 3.1. The values x_1 to x_4 represent thresholds of the different numerical predictor variables within the respective range analyzed, as also displayed in Table 3.1.

Explanation of the technicalities of the random-forest approach In this study, a random-forest (RF) classifier was developed to determine the impact on the fate of terminated public service companies. An RF is an extension of the concept of decision trees, primarily to reduce the well-known problem of overfitting and therefore, to improve the model's capability to generalize. In brief, the classification process for a given object (here: company) using a decision tree is done by evaluating a sequence of 'tests' on the branches of the tree; see the illustrative example shown in Figure A.3. The process of test evaluations continues until the object is classified into a terminal leaf node according to its properties (predictor variables). In this study, each leaf node belongs to either the 'reinternalization' or 'noreinternalization' classes. Using labeled training data, the sequence of tests is created such that the gain of information in each test is maximized in terms of the correct classification of the training samples; or in other words, the most informative predictor variable is automatically selected for each test at the respective branch in a tree. In the R 'randomforest' package (Liaw and Wiener, 2002), the CART algorithm (Breiman et al., 1984) is employed to generate the tests. As an extension of this concept, an RF model consists of a multitude of *n* decision trees that are similar but not identical. This is achieved by introducing randomness into the training process; see Breiman (2001) for details. In order to reach a decision about the class membership of a particular object, it is classified by each of the decision trees in the RF before the final decision is made according to the majority of class memberships.

A.2. Tables

Table A.1.: Regression with D.K.'s-robust standard errors in parentheses used in Chapter 2; this regression is analogous to Models 1 to 4 in Table 2.3 but with a limited panel period (2008–2017) as a robustness check ***p<0.01, **p<0.05, *p<0.1.

Direct Ownership		Municipal Group			
		Model 1 (10%)	Model 2 (25%)	Model 3 (10%)	Model 4 (25%)
H1a	L.Short-term debt	0.025** (0.009)	0.021* (0.01)	-0.003 (0.023)	-0.011 (0.023)
	L.Business Tax.rev	0.002 (0.021)	0.006 (0.023)	-0.008 (0.049)	-0.015 (0.052)
H1b	L.Long-term debt	0.008 (0.01)	0.01 (0.01)	0.021 (0.016)	0.026 (0.015)
	L.Youth share	-0.066*** (0.016)	-0.071*** (0.015)	-0.137* (0.062)	-0.122* (0.065)
H2	L.Party mayor	0.079 (0.100)	0.064 (0.104)	0.394*** (0.094)	0.464*** (0.097)
	L.Education mayor	0.214* (0.096)	0.200* (0.097)	-0.274 (0.149)	-0.314* (0.165)
	L.Priv. sector exp. mayor	-0.151* (0.081)	-0.145* (0.076)	-0.495** (0.187)	-0.432** (0.179)
H3	L.Consolid. statement	-0.222* (0.112)	-0.241* (0.113)	-0.547** (0.230)	-0.680** (0.251)
	L.Strengthening pact	-0.257*** (0.063)	-0.240*** (0.059)	-0.609*** (0.177)	-0.505** (0.162)
	L.Publ.Corp.Gov.Code	-0.141* (0.069)	-0.121 (0.07)	0.283 (0.243)	0.399 (0.257)
Controls	L.Personnel exp.	-0.001* (0.0005)	-0.001* (0.0005)	0.0003 (0.0008)	0.0001 (0.001)
	L.Election	0.035 (0.041)	0.032 (0.053)	0.098*** (0.013)	0.096*** (0.012)
	L.Party council	0.353** (0.131)	0.357** (0.132)	-0.962** (0.374)	-0.958* (0.438)
	L.Limited contract	0.028 (0.021)	0.028 (0.022)	0.076 (0.057)	0.094 (0.058)
Time/City FE	YES	YES	YES	YES	
Observations	306	306	306	306	
Groups	34	34	34	34	
R-square (within)	0.1350	0.1332	0.1856	0.1824	

Table A.2.: Evaluation of multi-collinearity among regressors with the Variance Inflation Factor (VIF) used in Chapter 2. A VIF above 10 indicates multi-collinearity (O'Brien, 2007).

Independent Variables	Variance Inflation Factor (VIF)
Short-term debt	1.15
Business Tax.rev	1.53
Long-term debt	1.14
Youth share	1.89
Party mayor	1.47
Education mayor	1.20
Private sector experience mayor	1.13
Consolid. statement	1.36
Strengthening pact	1.75
Publ.Corp.Gov.Code	1.36
Personnel exp.	1.22
Election	1.01
Party council	1.64
Limited contract	1.08
Mean VIF	1.35

Table A.3.: List of 34 North Rhine-Westphalian cities analyzed in Chapter 3.

Arnsberg, Bad Salzuflen, Bergisch Gladbach, Bielefeld, Bochum, Bonn, Detmold, Dinslaken, Dormagen, Düren, Frechen, Gladbeck, Grevenbroich, Gütersloh, Hattingen, Herne, Iserlohn, Leverkusen, Lüdenscheid, Meerbusch, Mönchengladbach, Moers, Mülheim/Ruhr, Oberhausen, Pulheim, Ratingen, Rheine, Siegen, Solingen, Troisdorf, Unna, Velbert, Willich

Table A.4.: Documents cited in Chapter 4 with anonymized titles.

Doc-1	Cabinet report, October 2020: “Decision on the Future Model for...”
Doc-2	Company full accounts, March 2020: “Report of the Directors...”
Doc-3	Cabinet report, October 2020: “Ad Hoc Scrutiny Report...”
Doc-4	Cabinet report, October 2020: “Ad Hoc Scrutiny Recommendation...”
Doc-5	Chief executive report, July 2019: “Organisational Change at...”
Doc-6	Executive decision report, February 2018: “Future Relationship with...”
Doc-7	Draft resolution, January 2014: “Approaches for restructuring...”
Doc-8	Minutes audit committee report, January 2012: “Corporate debt...”
Doc-9	Council’s annual report and accounts, March 2014
Doc-10	Cabinet report, April 2011: “Return of Decision Making Powers...”
Doc-11	Council’s statement of accounts 2015/16, September 2016
Doc-12	Report of the strategic director place, July 2019: “To the procurement...”
Doc-13	Report of the strategic director place, July 2021: “To accounts and...”
Doc-14	Council’s press release, December 2020
Doc-15	Council’s public communication template, July 2019
Doc-16	Policy and resources committee report, July 2018: “Review of...”
Doc-17	News piece, June 2018: “[Company] merged into council...”
Doc-18	Cabinet report, October 2018
Doc-19	Cabinet report, March 2017: “The Strategy for Delivering...”
Doc-20	Magistrate’s office working paper, July 2016: “The strategic...”
Doc-21	News piece, September 2018: “Company dissolution is...”
Doc-22	Council session template, August 2020: “Restructuring of...”

B. Ethical approval



Dr Thomas Elston
Maïke Rackwitz
Blavatnik School of Government
University of Oxford

23 June 2021

Dear Thomas and Maïke

Research Ethics Amendment Approval

Reference Number: SSD/CUREC1A/BSG_C1A-21-11/amendment 1

Project title: A procedural investigation into the dissolution/reintegration of municipal companies in the legal form of limited liability companies in England and Germany

The amendment to the above ethics protocol has been considered on behalf of the Blavatnik School of Government's Departmental Research Ethics Committee (DREC), in accordance with the procedures laid down by the University of Oxford for ethical approval of all research involving human participants.

I am pleased to inform you that, on the basis of the information provided to the DREC, the proposed amendment has been granted.

In line with current guidance please do not undertake any data collection involving in-person interactions with participants. Once in-person research is permissible again, you will need to notify the DREC via email *before* undertaking any recruitment for in-person interaction with participants.

More detailed guidance is available via

<https://researchsupport.admin.ox.ac.uk/governance/ethics/coronavirus>.

Should there be any subsequent changes to the project that raise ethical issues not covered in the original application, you should submit details to the DREC for consideration.

Please note that this approval is valid until **30 September 2021**, as requested. Should you need a further extension, please request this from the DREC before your validity period ends.

Yours sincerely,

A handwritten signature in black ink that reads 'Peter A. Kemp'. The signature is written in a cursive style with a horizontal line underneath the name.

Professor Peter A Kemp
DREC Chair

cc: Miriam Mendes

Blavatnik School of Government, University of Oxford
ethics@bsg.ox.ac.uk | www.bsg.ox.ac.uk

C. Interview guide

Interview guide used for the empirical research in Chapter 4.

Blavatnik School | University of Oxford | Woodstock Road | Oxford OX2 6GG | maike.rackwitz@bsg.ox.ac.uk

Name of enterprise (Ltd.):		Answers
Questions		
Fact sheet		
1	1) Beginning of reintegration 2) End of reintegration (year)	1) 2)
2	Service sector in which the enterprise operated	
3	Size of the enterprise (Ø number of employees)	
4	Name and scale of stakes (in %) of shareholders	Public sector: Private sector:
5	Did the executive/s come from the private or public sector?	
I. Causes, course, and consequences		
6	In your own words, why was the enterprise reintegrated:	
7	Who initiated the reintegration?	
8	Who mainly accompanied the reintegration? Who else was involved in the process?	Key actors: Peripheral actors:

9	Why was this form of restructuring chosen? Why was the decision made not to terminate, merge, privatise or contract out the service?
10	What exactly was reintegrated? (e.g. service, personnel, budget?)
11	To what extent was the service integrated into existing organisational structures?
12	How was the reintegration handled by leadership? Was its exact implementation imposed top-down or was a collaborative solution sought? If collaborative, who was involved in finding a solution?
13	How long was the lead time? Was your administration or the responsible staff sufficiently prepared or did they feel rather blindsided with the task of reintegration? If so, why?
14	What were the main challenges you encountered in the process of reintegration?
15	To what extent did you observe challenges due to tensions between the former private/business logic (market-like mechanisms, performance indicators, price criterion) and the logic of bureaucracy (hierarchy of impartial officials, rules and regulations) when processing the reintegration? (e.g. conflicting rationalities/objectives/agendas and the need to adjust goals, strategies, incentive structures or mind-sets)

16	Were there any challenges in repositioning former employees? If yes, why?	(e.g. in the transition from non-tariff to tariff contracts)
17	How did you deal with these challenges? Which established coping strategies could you fall back on and which had to be adjusted or newly created?	
II. Wrap-up		
18	In hindsight, do you think it was the right decision to reintegrate the service? Please explain.	
19	What would you recommend to your colleagues if they were to undertake a similar reintegration?	
20	(Contractual) public-private partnerships (PPP) are often viewed critically by the public, however, this is rarely the case for municipal corporations in the form of a limited liability company. What do you think is the reason for this, and do you share this experience?	

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Additional comments:

D. Publications and contributions

Peer-reviewed (part of this dissertation)

Chapter 2: Rackwitz, M. & Raffer, C. (work in progress). Shifts in local governments' corporatization intensity: Evidence from German cities. *Journal of Public Administration Research and Theory* (in revise and resubmit).

Chapter 3: Rackwitz, M. (forthcoming). Fraught with tension? A machine-learning approach to termination traits of public corporations in English and German local governments. *Public Management Review* (accepted).

Chapter 4: Rackwitz, M. (work in progress). Closed down, yet tasks remain: Local government response mechanisms to the aftermath of corporatization in England and Germany. *Organization Studies* (in review).

Peer-reviewed (not part of this dissertation)

Elston, T.; Rackwitz, M. & Bel, G. (forthcoming). Going separate ways: Ex-post interdependence and the dissolution of collaborative relations. *International Public Management Journal* (accepted).

Breaugh, J.; Rackwitz, M., Hammerschmid, G.; Nommik, S.; Bello, B., Boon, J.; Van Doninck, D.; Downe, J. & Randma-Liiv, T. (2023). Deconstructing complexity: A comparative study of government collaboration in national digital platforms and smart city networks in Europe. *Public Policy and Administration*, 1-22, <https://doi.org/10.1177/09520767231169401>.

Hammerschmid, G.; Palaric, E.; Rackwitz, M. & Wegrich, K. (2023). A shift in paradigm? Collaborative public administration in the context of national digitalization strategies. *Governance*, 1-20, <https://doi.org/10.1111/gove.12778>.

Breaugh, J.; Rackwitz, M. & Hammerschmid, G. (2023). Leadership and institutional design in collaborative government digitalisation: Evidence from Belgium, Denmark, Estonia, Germany, and the UK. *Government Information Quarterly* 14(2), 1-11, <https://doi.org/10.1016/j.giq.2022.101788>.

Rackwitz, M. & Palaric, E. (2023). A shift towards collaboration? Evidence from national digitalisation strategies. *dms – der moderne staat – Journal of Public Policy, Law and Management* 16(1), 1-20, <https://doi.org/10.3224/dms.vXiX.273808>.

Rackwitz, M.; Hustedt, T. & Hammerschmid, G. (2021). Digital transformation: From hierarchy to networked-based collaboration? The case of the “Online Access Act”. *dms – der moderne staat – Journal of Public Policy, Law and Management* 14(1), 101-120, <https://doi.org/10.3224/dms.v14i1.05>.

Book chapters

Hammerschmid, G.; Breugh, J. & Rackwitz, M. (forthcoming). Intergovernmental collaboration in the context of digital transformation: state-of-the-art and theoretical notions. In: G. Hammerschmid; K. Verhoest; L. Rykkja; E. Klijn. *Collaborating for Digital Transformation: How internal and external collaboration can contribute to innovate public service delivery*. Edward Elgar Publishing (accepted).

Rackwitz, M. & Van Doninck, D. (forthcoming). The coordination of smart cities: insights from a cross-case analysis on the implementation of smart city strategies. In: G. Hammerschmid; K. Verhoest; L. Rykkja; E. Klijn. *Collaborating for Digital Transformation: How internal and external collaboration can contribute to innovate public service delivery*. Edward Elgar Publishing (accepted).

Rackwitz, M.; Breugh, J. & Hammerschmid, G. (forthcoming). Leadership for intergovernmental collaboration towards digital transformation. In: G. Hammerschmid; K. Verhoest; L. Rykkja; E. Klijn. *Collaborating for Digital Transformation: How internal and external collaboration can contribute to innovate public service delivery*. Edward Elgar Publishing (accepted).

Non-peer reviewed

Rackwitz, M. (2022). “Busting silos” – What’s needed to navigate collective action in the digital age. *Blogpost Hertie School Webpage*.

Rackwitz, M. (2021). Shared services – “less administrative burden, lower costs, more legal certainty” – an award-winning joint procurement centre in the German district of Groß-Gerau. *Blogpost TROPICO Webpage*.

Rackwitz, M. (2021). Inter-municipal collaboration in the district of Groß-Gerau. Shared services in a joint procurement centre. *Case study TROPICO Webpage*.

Rackwitz, M. (2020). Digitalstadt Darmstadt: A collaborative network and its structural backbone. *Blogpost TROPICO Webpage*.

Breaugh, J.; Hammerschmid, G.; Rackwitz, M. & Palaric, E. (2020). Research report on collaborative management for ICT enabled public sector innovation. *TROPICO EU Research Report*.

Rackwitz, M. (2020). Germany: Digitalstadt Darmstadt. In: Rackwitz, M. et al.: Government Collaboration and Digitalisation: Comparative Case Studies on Collaboration Management for Government Digitalisation and Public Sector Innovation. *TROPICO EU Research Report*, 192-217.

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Rackwitz, M. (2016). KMU als neue "CitYzen"- Chancen und Grenzen von Engagement lokaler Unternehmen in der Quartiersentwicklung (SME as new "CitYzen" – Opportunities and limits of local private companies' engagement in urban development). In: PLANERIN 5/2016: *Private Akteure in der Stadtentwicklung im Spannungsfeld von Markt & Gemeinwohl*. Berlin: SRL, 9-13.

Conference proceedings

Rackwitz, M.; Elston, T. & Bel, G. (2022). Going separate ways – Ex-post interdependence and the dissolution of inter-municipal collaborations. *The Transatlantic Dialogue – TAD*, Roskilde University.

Breaugh, J.; Rackwitz, M., Hammerschmid, G.; Nommik, S.; Bello, B., Boon, J.; Van Doninck, D.; Downe, J. & Randma-Liiv, T. (2022). Deconstructing complexity: An international comparative study of intergovernmental collaboration in the context of implementing digital platforms and smart city networks in Europe. *The Transatlantic Dialogue – TAD*, Roskilde University.

Rackwitz, M.; Hammerschmid, G. & Breaugh, J. (2022). Challenges of intergovernmental collaboration in the context of government digitalization. Comparative findings from ten case studies in Belgium, Denmark, Estonia, Germany and the United Kingdom. *38th European Group for Organizational Studies – EGOS – Colloquium*, WU Vienna (accepted).

Rackwitz, M.; Elston, T. & Bel, G. (2022). Going separate ways: Ex-post interdependence and the dissolution of inter-municipal collaborations. *Trans-European Dialogue – TED*, University of Bergen, online.

Rackwitz, M. (2021). Wound up yet the tasks remain – Local governments’ response mechanisms in the aftermath of corporatization in Germany and the UK. *37th European Group for Organizational Studies – EGOS – Colloquium PDW*, Free University of Amsterdam, online.

Rackwitz; M. (2021). Fraught with tension? A clustering approach to dissolution traits of public corporations in English and German cities. *CIVICA Panel on Urban Governance*, online.

Rackwitz, M. & Raffer, C. (2021). Shifts in local governments’ corporatization intensity. Evidence from German cities. *10th European Meeting of the Urban Economics Association – UEA*, Copenhagen Business School, online.

Breaugh, J.; Rackwitz, M. & Hammerschmid, G. (2021). The salience of institutional design and leadership in collaborative efforts to develop digital government platforms. Comparative findings from five case studies in Belgium, Denmark, Estonia, Germany and UK. *International Research Society for Public Management – IRSPM*, University of Bern, online.

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Raffer, C.; Rackwitz, M. & Hammerschmid, G. (2019). Antecedents and dynamics of joint public service delivery - Developing a novel longitudinal index to analyze out-sourcing activities of German cities. *The European Group for Public Administration – EGPA*, University of Belfast.

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Rackwitz, M. & Palaric, E. (2019). A shift in argumentation and justification? Collaborative public administration in the context of national digitalisation strategies. *Forum State, Policy and Administration Research – FoJuS*, University of Kassel.

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Rackwitz, M.; Elston, T. & Bel, G. (2022). Going separate ways – Ex-post interdependence and the dissolution of inter-municipal collaborations. *The Transatlantic Dialogue – TAD*, Roskilde University.

Breaugh, J.; Rackwitz, M., Hammerschmid, G.; Nommik, S.; Bello, B., Boon, J.; Van Doninck, D.; Downe, J. & Randma-Liiv, T. (2022). Deconstructing complexity: An international comparative study of intergovernmental collaboration in the context of implementing digital platforms and smart city networks in Europe. *The Transatlantic Dialogue – TAD*, Roskilde University.

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Rackwitz, M.; Palaric, E.; Hammerschmid, G. & Wegrich, K. (2019). A shift in discourse? Collaborative public administration in the context of national digitalisation strategies. *The European Group for Public Administration – EGPA*, University of Belfast.

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Rackwitz, M. & Costa, A. (2018). It takes 2.0 to tango: Exploring the transformation into collaborative governments in the digital age. *Mini-conference on Digital State Capacities*, Hertie School, Berlin.

